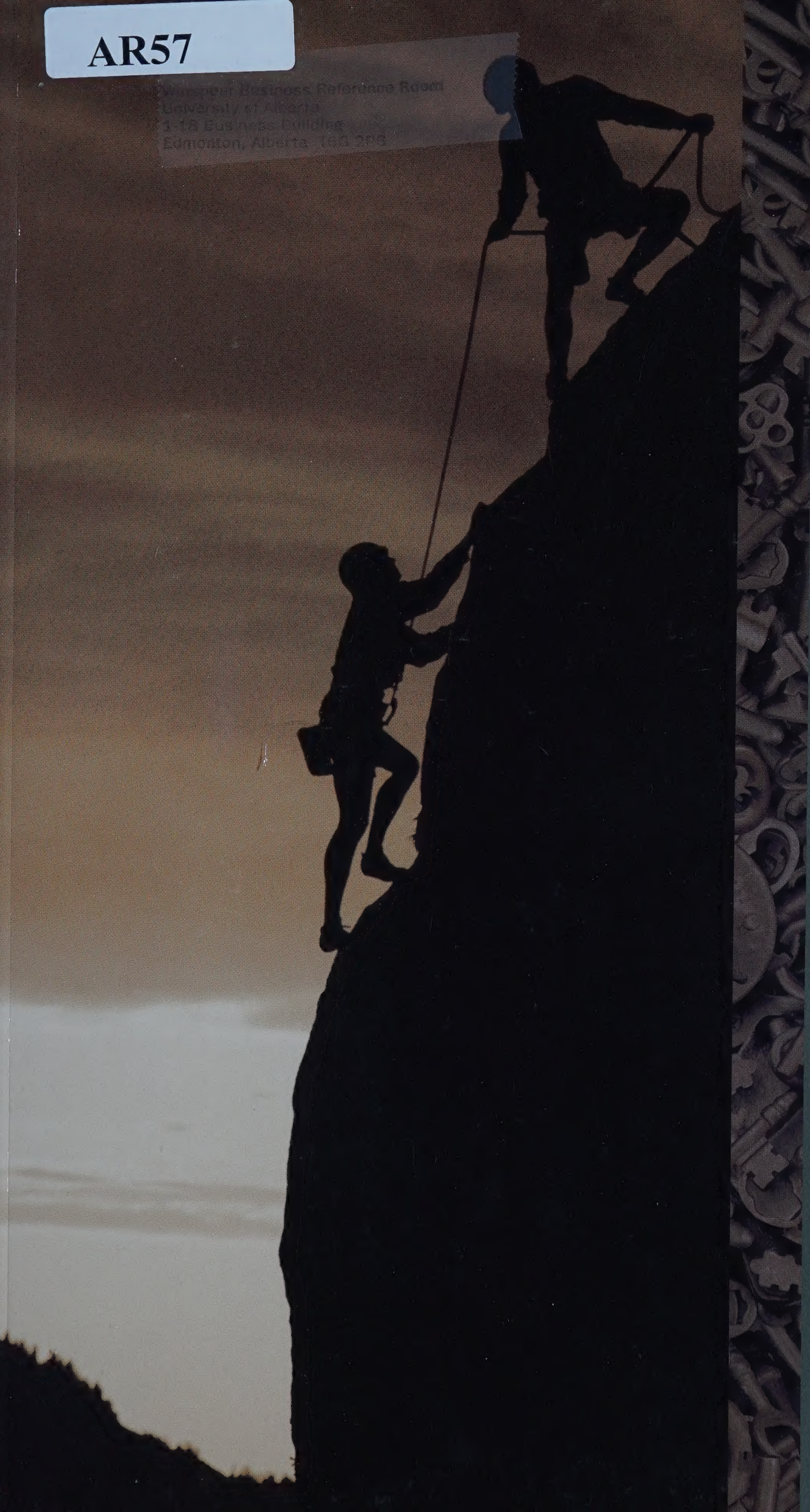


Great-West LIFECO INC.

ANNUAL REPORT
1998

GREAT-WEST LIFECO INC.

Contents

PERFORMANCE. SECURITY.

Those who dare to climb mountains show a special courage. We admire and respect their skill, dedication, strength, patience and teamwork. But mostly, reaching new heights is about performance to the highest standards with close attention to safety and security.

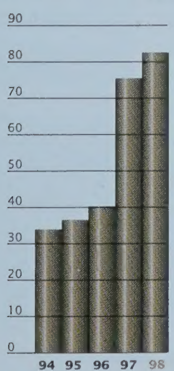
Our Annual Report for 1998 is about performance and security – the qualities that anchor Lifeco's results, and the success of its subsidiaries in helping people achieve financial security.

FINANCIAL HIGHLIGHTS

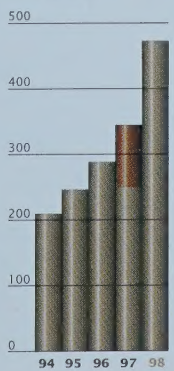
(in millions of dollars except per common share amounts)

	1998	1997	% Change
FOR THE YEAR			
Total premiums including risk premiums, self-funded premium equivalents and segregated fund deposits			
Life insurance	$ 3,425	$ 1,850	85 %
Annuities	6,471	4,638	40 %
Health insurance	7,197	4,866	48 %
Reinsurance	2,646	904	193 %
Property & casualty insurance	44	7	–
Total	19,783	12,265	61 %
Fee and other income	1,003	703	43 %
Net income before provision for integration costs attributable to:			
Preferred shareholders	36	31	16 %
Common shareholders	437	314	39 %
Net income attributable to:			
Preferred shareholders	36	31	16 %
Common shareholders	437	219	100 %
Return on common shareholders' equity before provision for integration costs	15.4%	17.4%	
Return on common shareholders' equity	15.4%	12.5%	
PER COMMON SHARE			
Net earnings before provision for integration costs	$ 1.17	$ 0.97	20 %
Net earnings	1.17	0.68	73 %
Dividends paid	0.44	0.37	19 %
Book value	8.12	7.08	15 %
AT DECEMBER 31			
Life insurance in force *(face amount)*	$ 477,234	$ 403,104	18 %
Annuities in force *(funds held)*	43,936	39,026	13 %
Health insurance in force *(annualized premiums)*	9,309	6,594	41 %
Total assets	54,725	52,044	5 %
Segregated funds assets	28,394	22,162	28 %
Other assets under administration	374	1,231	(70) %
Total assets under administration	83,493	75,437	11 %
Capital stock and surplus	3,548	3,162	12 %

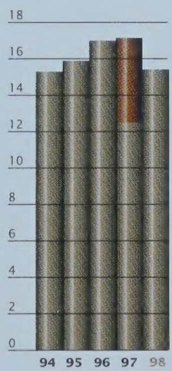
Assets Under Administration
($ billions)



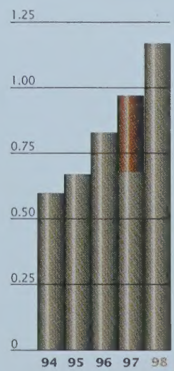
Net Income
($ millions)



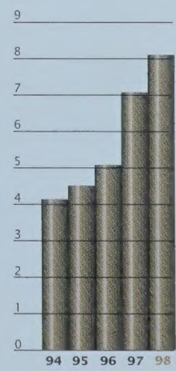
Return on Equity
(%)



Earnings per Common Share
($)



Book Value per Common Share
($)



provision for integration costs

CORPORATE PROFILE

Great-West Lifeco Inc. is a financial services holding company with interests in the life insurance, health insurance, retirement savings, specialty reinsurance and general insurance businesses, primarily in Canada and the United States.

Lifeco was formed in 1986 to hold securities of The Great-West Life Assurance Company, and has a 99.6% voting interest in Great-West Life. Lifeco is not restricted to investing in Great-West Life common shares, and may make other investments in the future.

Great-West serves the financial security needs of more than 13 million people through its Canadian operations and London Insurance Group in Canada, and through Great-West Life & Annuity Insurance Company in the United States. Lifeco and its companies have more than $83 billion in assets under administration and $477 billion of life insurance in force.

The Great-West Life Assurance Company

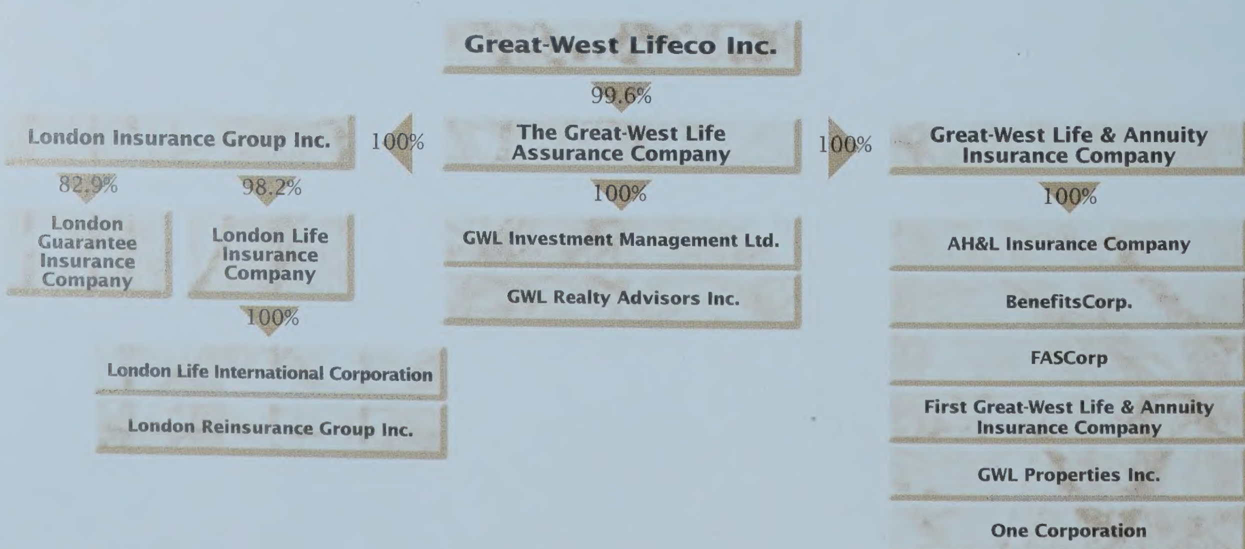
Founded in Winnipeg in 1891, Great-West is a leading life and health insurer in the Canadian market in terms of market share. The Company offers a range of life and disability insurance, retirement savings and investment products for individuals, families, businesses and organizations. The Company markets its products in Canada through a network of Great-West and London Life representatives, brokers, and through marketing agreements with other financial institutions.

London Life Insurance Company

Founded in London, Ontario in 1874, London Life has the leading market share of individual life insurance in Canada, under its widely recognized Freedom 55™ brand. London Life markets life insurance, disability insurance and retirement savings and investment products in Canada through its exclusive sales force. In addition to its domestic operations, the Company is a supplier of reinsurance in the United States and Europe, and is a 39% participant in a joint venture life insurance company, Shin Fu, in Taiwan.

Great-West Life & Annuity Insurance Company

In the U.S., Great-West Life & Annuity is a leader in providing employee benefits for small to mid-sized corporations and in meeting the retirement income needs of employees in the public/non-profit sector. The Company markets its products through brokers and group representatives, and through marketing agreements with other financial institutions.



Business	Principal Markets & Products		Distribution Systems
Individual Insurance & Retirement	**Canada** Consumers	• Participating & non-participating life insurance • Disability insurance • Segregated funds • Registered & non-registered savings & income products	• Great-West Life representatives • London Life representatives • Investors Group representatives • Independent brokers and representatives of intercorporate partners
	United States Organizations in the public/non-profit & institutional markets	• Employer-sponsored, tax advantaged retirement products • Communication & enrollment services • Administration & recordkeeping services for financial institutions • Private label annuity products • Life insurance	• BenefitsCorp • FASCorp • Independent marketing agencies • Marketing agreements with financial institutions
	Taiwan Consumers	• Individual participating & non-participating life and health insurance	• Shin Fu representatives
Employee Benefits & Retirement	**Canada** Business & organizations with 3 or more employees	• Life and AD&D insurance, short and long-term disability insurance • Drug coverages, dentalcare and visioncare not provided by medicare • Employee assistance plans • Flexible benefit plans • Managed care • Plan administration services • Group RRSPs • Pension investment services	• Great-West Life representatives • London Life representatives • Investors Group representatives • Independent brokers and consultants
	United States Small to mid-sized corporate employers	• Life, health and disability insurance • Managed care programs • 401(k) savings products and rollover IRA products • Flexible benefits accounts	• Sales and service staff of Great-West Life & Annuity • One Health Plan HMO offices • Independent brokers and consultants
Specialty Insurance	**Canada** Specific niche business markets	• Specialty general insurance	• Independent brokers
Reinsurance	**United States, Europe** Major international insurers and reinsurers	• Specialty reinsurance products including life, property & casualty, accident & health and annuity coinsurance	• Staff of London Reinsurance Group • Independent brokers

DIRECTORS' REPORT TO SHAREHOLDERS

Lifeco continued its trend of strong performance for shareholders.

By all measures, 1998 was a year of strong growth. Earnings for common shareholders grew by 20% to $1.17 a share, driven by significant increases in Lifeco's Canadian and United States subsidiaries. Premium income grew 61% in 1998 to nearly $20 billion. Total assets under administration now exceed $83 billion, an increase of 11% over 1997.

For the second time in three years, the increasing market value of its common shares prompted Lifeco to subdivide its shares on a two-for-one basis. This share split, coupled with a 19% increase in common share dividends – the fifth increase in as many years – further enhanced the attractiveness of Lifeco shares for investors. By year end, book value on common shares had increased 15% for the year.

Performance to the highest standards, with close attention to security.

A diversified business base offers stability under circumstances of regional, political and competitive uncertainty. Lifeco enjoys a geographically balanced earnings base, with 59% of earnings generated by Lifeco's United States operations and the balance from Canadian operations.

Lifeco's business is well diversified within each region. In the United States, in addition to extensive and well-established business in the health care market for small to mid-sized employers, Great-West Life & Annuity has a large and growing business in the savings and retirement market for government and non-profit organizations. Products and services are distributed through a diversity of channels, including brokers and consultants in the healthcare market, marketing agreements with financial institutions in the savings and retirement market, and marketing partnerships with specialists in the life insurance market.

In Canada, Great-West Life has the leading market share, backed by an extensive product shelf in all of its major business lines – employee benefits for both large and small employers, individual life and disability insurance, and segregated funds for savings and retirement plans. Distribution is through a broad array of channels, including representatives of Great-West Life and its subsidiary London Life Insurance Company, brokers, and intercorporate partners such as Investors Group, whose large sales force markets Great-West's individual life and disability insurance and group insurance.

A further source of earnings diversification is the mix of insured business and fee for service business – the latter now contributes just over $1 billion of income for Lifeco.

James W. Burns
Chairman of the Board

Generating early and sustainable results is an important test of a successful acquisition. The integration of Great-West's operations with those of London Life saw direct expenses decline by $75 million during 1998, on track with our target of at least $150 million in expense synergies over the first two years following the acquisition. In addition to these expense synergies, we expect to realize significant productivity and revenue gains.

Great-West has historically enjoyed a strong capital position, as reflected by the Company's Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio. Being well capitalized has allowed the Company to move quickly when market opportunities arise. Just over 12 months following the acquisition of London Insurance Group, healthy operating earnings combined with in-year capital activity have allowed Great-West to restore its MCCSR ratio to its very strong pre-acquisition levels. At 15.4%, the Company's return on common shareholders' equity remains a solid return in the financial services industry.

Developments

For several years now, Lifeco's subsidiaries have pursued a strategy of managed growth. The acquisition of Anthem Health & Life Insurance Company in the United States in 1998 brought total membership to 2.3 million individual health customers nationwide, and placed Great-West Life & Annuity among the top health carriers in the United States. The Company was one of the few major health insurers to meet financial performance expectations in a market that saw several larger carriers experience large losses or exit the market entirely.

In Canada, the merger of London Life's operations with those of Great-West has created the largest life and health insurer in the country in terms of market share. Alliances between Great-West, London Life and our sister company Investors Group, hold the potential for significant marketing and service enhancements and expense reduction in areas such as insurance distribution, sales and service technology, and segregated fund management.

While size is not an objective in itself, it does offer important competitive advantages. New technologies and the expanding needs of consumers are creating opportunities for those companies that can anticipate and lead these developments. With size comes the ability to offer the low cost, innovative solutions our customers seek.

Although consolidation remains a well-documented industry trend in both countries, regulatory response to this trend has taken different tracks. In the United States, the evolution of financial services is more market driven, with organizations reacting rapidly to opportunities. As a result, we are seeing a continuing wave of consolidation. In what was a record year for mergers overall, four of the top 10 mergers in the United States involved financial institutions, the smallest valued at $29 billion U.S.

Orest T. Dackow
President and Chief Executive Officer

These consolidations occurred both within sectors of the financial services industry, where we see a growing shift from local to national institutions; and across sectors, with the emergence of increasingly powerful multi-line providers.

A similar intensity of consolidation appears probable in the Canadian market, with one critical difference – consolidation of the Canadian financial services industry unfolds within a more structured regulatory framework. In 1998, the financial services industry saw public policy debates on the evolution of the industry, through the Task Force on the Future of the Canadian Financial Services Sector which reported in the fall, and on demutualization, to name only two.

Canada has generally been well served by its financial services industry. The safety and level of service Canadians enjoy reflect a regulatory and public policy framework that has, for the most part, allowed institutions to meet competitive challenges. We believe that significant changes to this complex regulatory structure should be made only after the ramifications for competitiveness are thoroughly understood, particularly since Canadians already enjoy the benefits of a highly competitive insurance industry.

The ongoing effectiveness of Lifeco and its operating subsidiaries is dependent upon timely response to the diverging needs of regional markets and their regulatory environment. While Lifeco's current structure is well aligned with its growth and profitability strategies, we believe it prudent to look at the structure on an ongoing basis, to ensure that it continues to effectively balance regional control, through management within each region who understand and anticipate market and regulatory developments, with the financial strength of an international organization.

Performance and security

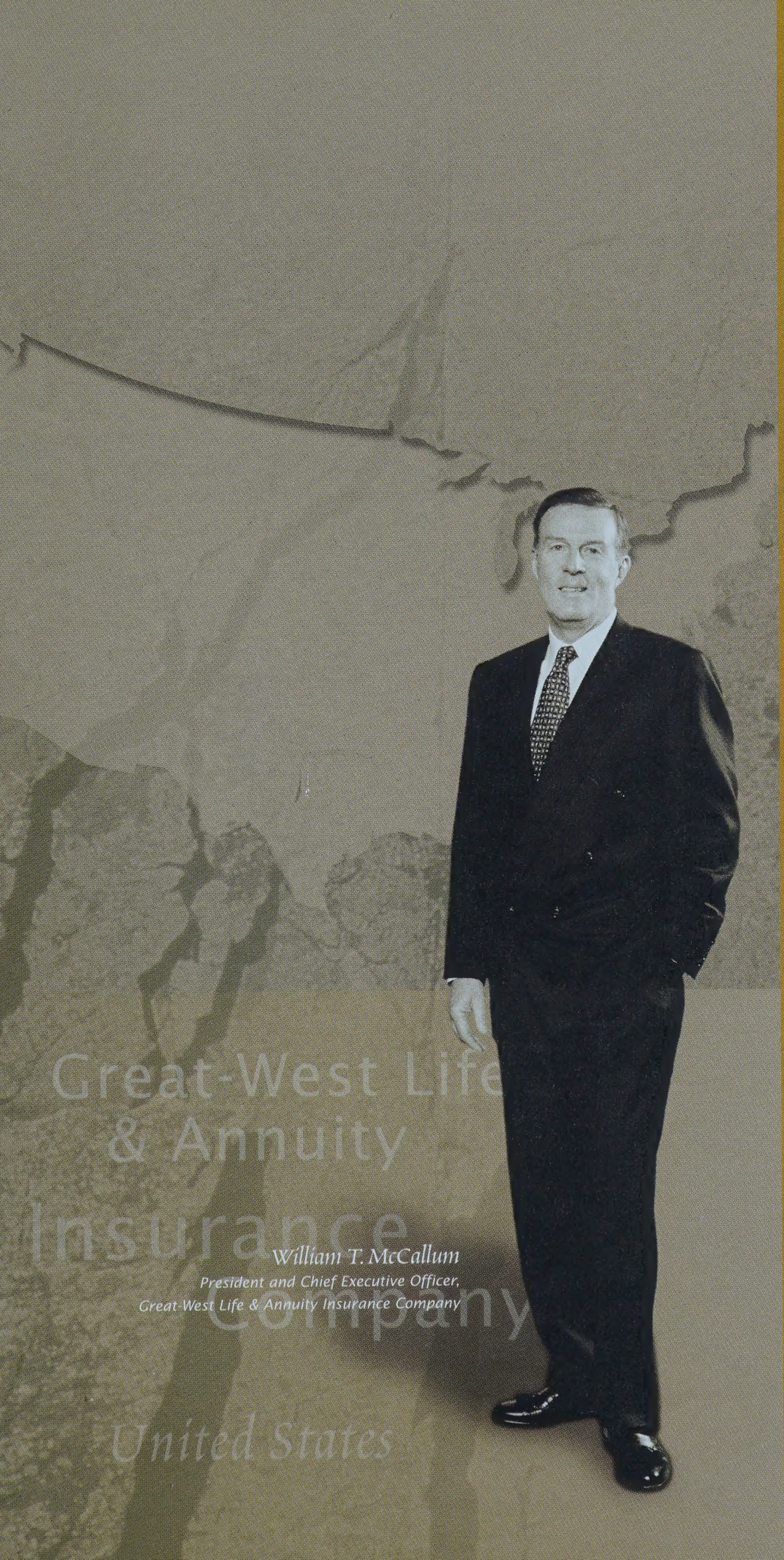
Lifeco's subsidiaries have in place what we believe to be sound strategies for growth and profitability, based upon sustainable competitive advantages. With highly skilled people and efficient operating structures in place, and ready access to capital, these companies are positioned to respond quickly and effectively to market changes. This places Lifeco in a strong position at a time when many competitors, especially in Canada, are embarking on significant organizational changes.

Our Annual Report for 1998 is about performance to the highest standards, with close attention to security. We believe the initiatives and strategies discussed here will enable Lifeco and its subsidiaries to continue to deliver the performance our shareholders and customers have come to expect.

That Lifeco's subsidiaries have been able to achieve dramatic growth while maintaining a firm hand on day-to-day business illustrates the calibre of our people, and their skill and dedication in meeting needs of customers. On behalf of the Board of Directors, we extend our appreciation to the staff and sales representatives in all our operations, for their outstanding achievements, and to our customers and shareholders for their continued support.

J.W. Burns
James W. Burns
Chairman of the Board

O. T. Dackow
Orest T. Dackow
President & Chief Executive Officer



William T. McCallum
President and Chief Executive Officer,
Great-West Life & Annuity Insurance Company

REVIEW OF OPERATIONS – United States

A firm foundation, strategically secured, supports progress toward important goals. GWL&A's leadership in niche markets provides such a foundation.

INTRODUCTION

Great-West Life & Annuity serves more than 3.6 million Americans through a full range of managed care, life and disability insurance and retirement savings products and services. Our two business divisions, Employee Benefits and Financial Services, focus on specific market sectors.

Employee Benefits Division

The Employee Benefits Division provides managed care, life and disability insurance and 401(k) products to more than 11,000 companies nationwide. The Division is best known for its preferred funding and integrated plan designs, which provide comprehensive benefits coverage, proven value and the convenience of a single source solution. One Health Plan, GWL&A's wholly-owned subsidiary, provides managed health care services to 2.3 million members through the Division's Health Maintenance Organization, Point of Service and Preferred Provider Organization plans.

Financial Services Division

The Financial Services Division operates three independent, closely related businesses. The Public/Non-Profit group is a leading provider in the deferred compensation market, providing retirement savings services to employees in the public and non-profit sectors. FASCorp, a wholly-owned subsidiary of GWL&A, provides record keeping and administrative services for more than 1.3 million defined contribution participant accounts. The Individual Markets group provides insurance and annuity products serving both individual and corporate needs through a select group of institutional partners.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

In 1998, Great-West Life & Annuity Insurance Company maintained the disciplined focus that has been our recipe for success. Our two autonomous operating divisions – Employee Benefits and Financial Services – continued to invest in partnerships and technologies that add value to the products and services their target markets demand.

Employee Benefits

The employee benefits industry faced a number of challenges and opportunities in 1998. In health care, many HMOs and commercial insurance carriers experienced large financial losses, and some of the larger carriers dropped out of the health insurance market entirely. Meanwhile, the national debate on social security reinforced the need for individual responsibility in retirement planning. In this environment, Great-West was one of the few insurance companies that increased its medical and 401(k) membership and met financial performance expectations.

Total Benefits Solution

Great-West has a differentiated strategy that helps employers maximize the benefits provided to employees, while offering significant cost savings – the Total Benefits Solution.

This concept lets employers maximize the value of their benefits package through cash flow savings and tax efficiencies. Since health care is one of the most expensive benefits employers provide, we offer a choice of managed care plans. Each one features quality coverage and a network of physicians and hospitals – all at affordable prices. Because these plans are self-funded, employers only pay for actual health care claims plus an administration fee. For companies with a better than average claims experience, this can mean significant savings.

Our customers also benefit from on-line innovations. Our 401(k) customers can use our Internet site to check account balances and contribution history, and make routine changes. Supplementary information makes it easy for them to review investment strategies, test their knowledge of 401(k) plans, or discover how a 401(k) can help put retirement goals within reach. With a simple click, customers can also link directly to most of our fund companies.

Our health plan customers can select a physician, or get information about their plan and a variety of general health tips through our Internet site. Enhancements for 1999 will include the ability to enroll and access membership records on-line.

One Health Plan

One Health Plan members have access to a national health care network of more than 2,400 hospitals and 306,000 physicians. In 1998, we continued to expand, adding four more HMO states, bringing to 14 the number of states where One Health Plan is licensed to operate. We expect to add four new states in 1999.

In 1998, One Health Plan also implemented a series of proactive, consumer-oriented programs.

Strong connections provide both flexibility and security. One such connection is through GWL&A's web site, where clients can find tools and information to help them make health care and retirement decisions with confidence.

These initiatives are designed to ensure the quality of health care and highest level of member satisfaction.

Annual medical costs in the United States have soared beyond $1 trillion. The best way to exert some control over rising health care expenditures is by having a healthier population. Programs geared toward wellness, early detection, and medical management, and an emphasis on promoting healthy lifestyle choices are all crucial to our vision of what managed care needs to be.

At the same time, we want to provide members with access to the full range of care they may need. We rely on a National Medical Directors' Council to research the appropriateness of the latest medications, technologies and treatments and to determine those that should be covered by One Health Plan.

In 1998, we continued to deliver our asthma and diabetes management programs, which help customers manage their conditions as part of a lifelong plan. In 1999, we'll expand our quality improvement initiatives to include a program for cardiac patients.

Anthem Health & Life Insurance Company

A strategy of Great-West is to pursue opportunities to grow through acquisitions when such transactions are prudent. This strategy is an important element in our ongoing plans to increase market penetration and profitability. In keeping with this focus, we completed the purchase of Anthem Health & Life Insurance Company (AH&L) in July 1998.

The acquisition accelerates our growth in highly attractive segments of the employer market, increases our membership in key geographical areas, and allows us to offer our employee benefit products to more organizations. It also provides economies of scale for Great-West and One Health Plan and significantly expands our total sales distribution network.

AH&L offers health, life, disability, dental and vision products and funding options to employers nationwide. Its history of marketplace flexibility, broad product portfolio and multi-state sales and service capabilities sets AH&L apart from many of its competitors. Like Great-West, it has placed considerable emphasis on selling self-funded products to small and medium-size employers.

Our primary target market of 20 to 1,000-member employee groups continues to offer significant growth opportunities. Of the approximately 95 million workers with employment-based coverage, nearly 40% work for private firms with fewer than 200 employees. AH&L, which will continue to operate as a separate subsidiary, will expand its portfolio in 1999 to include other high-demand employee benefit products, like our 401(k) plans and flexible spending accounts.

Financial Services

The retirement savings business in the United States is a fast-growing industry that continues to attract new players. The Financial Services Division is noted for quality products, flexible program design, and a high level of client service. We operate three distinct, but related businesses.

Public/Non-Profit Group (PNP)

Our Public/Non-Profit group provides retirement savings programs to government and non-profit organizations, and hospitals. As a nationally recognized leader in the deferred compensation market, our PNP group has been instrumental in developing and refining these plans.

In the highly competitive public/non-profit market, our advantage is our experience and commitment to customer relationships. We give customers more choice by offering three independent program components: investment options, recordkeeping, and communication services. Customers can choose all three components as part of a comprehensive program, or select individual components to weave into systems they build and manage.

In 1998, our participant base increased by more than 100,000, making this our second consecutive year of record growth.

An unusually high percentage of large-case government contracts came to market during the year. The Government Markets unit of PNP captured 80% of those large plans that changed providers and renewed 100% of our own large-case state contracts.

In addition to renewing contracts for retirement products, four states expanded their partnership with us to include system-wide recordkeeping services. In

1998, we also welcomed several new government entities.

As with the government market, our success in the rapidly changing health care market is based on our understanding of the needs and challenges of plan sponsors and participants. We work with each plan sponsor to create a productive partnership based on open discussion of plan needs and costs. In 1997, our approach led to a contract with Catholic Health Initiatives (CHI), the country's largest network of non-profit hospitals. In 1998, we brought administration, compliance, communication, and financial planning services to more than 50,000 CHI employees.

Seeking to strengthen our relationship with plan sponsors and participants, we concentrated on improving customer support in the areas of inquiry and transactions. We expanded on-line customer service through enhancements to our Web site. The site offers broad interactive capabilities enabling participants to obtain current account information, execute transactions, use retirement planning calculators and more.

Financial Administrative Services Corporation (FASCorp)

FASCorp's clients include a growing list of institutional customers who use our services on an out-sourced basis in conjunction with their retirement savings products. In 1998, we focused on two central tasks. We added 300,000 new participants to the system and worked to improve our quality.

Recordkeeping is a rapidly evolving business. Just a few short years ago, participants were content to receive statements on a quarterly basis, and to initiate a minimal number of transactions by calling a customer service representative. Today, more than ever, the world operates on a real-time basis.

Participants can view account information and make transactions through our interactive voice response system, or on-line using our Internet site. Every day, we have accounts that total over $41 billion that must be valued, ready to trade, and posted to participant records. GWL&A is committed to the recordkeeping and administration market – a commitment we believe will create a market leadership position for FASCorp, making it a strong, dependable recordkeeping partner for customers.

Our leading-edge proprietary computer system was designed to meet customers' needs both today and into the future. Our commitment to upgrading the system each year, along with its flexible architecture, makes it possible to add volume as needed and to accommodate virtually any plan design.

Individual Markets Group

The Individual Markets group provides insurance and annuity products distributed through a select group of institutional partners. We are known for our commitment to value-intensive products and services accompanied by a high level of service and technological support. 1998 was a year of solid growth in Individual Markets, achieved through deepening relationships with each of our institutional partners.

The future of the financial services business will be characterized by two trends: dramatic and rapid change, especially change brought about by technology and innovative alliances between financial institutions to deliver integrated products to end customers.

Our partnership with market leader Charles Schwab & Co. resulted in strong annuity sales in 1998, and an opportunity to provide life insurance products for distribution by Schwab in 1999. Through Dallas-based Clark/Bardes, our partner in the corporate-owned life insurance market, we provide products for specialized corporate needs. In 1998, we achieved another year of exceptional growth in sales through this partner.

The Management's Discussion and Analysis (MD&A) presents management's view of the financial position and performance of Great-West Lifeco Inc. in 1998 compared with 1997. The MD&A provides an overall discussion, followed by analyses of the performance of the Corporation's major reportable segments, its Canadian and United States operations.

Great-West Lifeco Inc. (Lifeco, the Corporation) holds a 99.6% voting interest in The Great-West Life Assurance Company (Great-West). Great-West's principal subsidiaries at December 31, 1998 are London Insurance Group (LIG), a company domiciled in the province of Ontario which holds a 98.2% voting interest in London Life Insurance Company (London Life); and Great-West Life & Annuity Insurance Company (GWL&A), a company domiciled in the State of Colorado. Great-West controls a 100% voting interest in both LIG and GWL&A.

Through Great-West and LIG in Canada and GWL&A in the United States, a wide range of life and health insurance, and retirement and investment products are sold to individuals, businesses and other public and private organizations. As well, through LIG in Canada, Great-West offers specialty reinsurance and general insurance products in specific niche markets.

1998 CONSOLIDATED OPERATING RESULTS

Great-West Lifeco Inc.

Selected Consolidated Financial Information

(in $ millions, except per common share amounts)

	1998	1997	% Change
For the Year			
Premiums for life insurance, guaranteed annuities, insured health products, and reinsurance and property and casualty	**$ 9,237**	$ 4,587	101 %
Self-funded premium equivalents (ASO contracts)	**4,849**	3,500	39 %
Segregated fund deposits	**5,697**	4,178	36 %
Total premium income	**19,783**	12,265	61 %
Fee and other income	**1,003**	703	43 %
Net income before provision for integration costs			
Total	**473**	345	37 %
Common shareholders	**437**	314	39 %
Net income			
Total	**473**	250	89 %
Common shareholders	**437**	219	100 %
Return on common shareholders' equity before provision for integration costs	**15.4%**	17.4%	
Return on common shareholders' equity	**15.4%**	12.5%	
Per Common Share			
Net earnings before provision for integration costs	**$ 1.17**	$ 0.97	20 %
Net earnings	**1.17**	0.68	73 %
Dividends paid	**0.44**	0.37	19 %
Book value	**8.12**	7.08	15 %
At December 31			
Total assets	$ **54,725**	$ 52,044	5 %
Segregated fund assets	**28,394**	22,162	28 %
Other assets under administration	**374**	1,231	(70 %)
Total assets under administration	**83,493**	75,437	11 %
Capital stock and surplus	**3,548**	3,162	12 %

Lifeco's net income for 1998 was $473 million, which compares to $345 million for 1997, excluding the special integration charge made in the fourth quarter of 1997. After deducting preferred share dividends, net income attributable to common shareholders was $437 million and earnings per common share increased 20% to $1.17. The return on shareholders' equity was 15.4% for the 12 months ended December 31, 1998.

For the fourth quarter of 1998, net income attributable to common shareholders was $115 million or $0.31 per share, which compares with $88 million or $0.25 per share in 1997.

Net income for 1998 reflects significant increases for both Canadian and United States operations, compared to 1997. Canadian operations includes the results of London Insurance Group, as well as related charges for goodwill amortization and financing costs associated with the acquisition for a full year in 1998 and from November 14 to December 31 in 1997.

Total premium income, including self-funded premium equivalents and segregated fund deposits, was $19.8 billion for 1998, 61% higher than in 1997. Total premium income for 1998 includes $6.7 billion of premium equivalents of LIG ($1.4 billion in 1997).

Fee and other income (which represents primarily management fees for segregated funds and administration fees for ASO contracts) of $1.0 billion was up 43%, compared to 1997. This reflects the growth in segregated fund assets in both countries and ASO contracts in the United States.

FINANCIAL POSITION

Total assets under administration grew to $83.5 billion at year-end 1998, an increase of $8.1 billion from 1997. Assets under administration include segregated funds of $28.4 billion at December 31, 1998, compared to $22.2 billion at the end of 1997. The change in other assets under administration reflects the sale of the mutual fund investment management operations of London Life as described in note 10 to the 1998 financial statements.

Obligations to policyholders made up 91% of total liabilities at the end of 1998 (89% at year-end 1997). The valuation of policy liabilities is certified by the Actuary of Great-West as being in accordance with accepted actuarial practice.

United States assets and liabilities are translated into Canadian dollars at the December 31 market rate of $1.53 for 1998 and $1.43 for 1997. The change in translation rate in 1998 of $0.10 had the effect of increasing 1998 assets by $1.4 billion, liabilities by $1.3 billion, and common shareholders' equity by $0.1 billion.

Total capital and surplus, including minority and other interests, of $5.6 billion at December 31, 1998 was 11.5% of total liabilities, compared with $5.2 billion or 11.0% in 1997. It is the Corporation's intention to maintain surplus ratios in its operating subsidiaries at levels sufficient to provide assurance of policyholder security and to maintain its superior credit ratings.

The Office of the Superintendent of Financial Institutions has specified a measurement basis for life

RATINGS OF GREAT-WEST AND ITS MAJOR SUBSIDIARIES

Rating Agency	**Measurement**	**Ratings**		
		Great-West	**London Life**	**GWL&A**
A.M. Best Company	Financial Condition and Operating Performance	A++*	A++*	A++*
Canadian Bond Rating Service	Investment Strength	A++*	A++*	NR
Dominion Bond Rating Service	Claims Paying Ability	IC-1*	IC-1*	NR
Duff & Phelps Corporation	Claims Paying Ability	AAA*	AAA*	AAA*
Moody's Investors Service	Insurance Financial Strength	Aa2	Aa2	Aa2
Standard & Poor's Corporation	Insurer Financial Strength	AA+	AA+	AA+

** Highest rating available; NR - not rated*

ASSET DISTRIBUTION

December 31 (in $ millions)

	1998		1997	
Government bonds	**$ 10,675**	**22%**	$ 10,012	21%
Other bonds	**20,159**	**41**	18,294	38
Mortgages	**9,857**	**20**	10,894	23
Stocks	**792**	**2**	790	2
Real estate	**1,072**	**2**	1,440	3
Sub-total portfolio investments	**42,555**		41,430	
Cash & certificates of deposit	**759**	**2**	900	2
Policy loans	**5,604**	**11**	5,153	11
Total invested assets	**$ 48,918**	**100%**	$ 47,483	100%

insurance companies operating in Canada. This measurement basis is referred to as the Minimum Continuing Capital and Surplus Requirements (MCCSR) and Great-West's ratio is 196% (185% at the end of 1997).

ASSET QUALITY

At December 31, 1998, exposure to mortgage loans and real estate was 22% of invested assets compared with 26% at the end of 1997.

The Corporation's exposure to non-investment grade bonds was 0.6% of the portfolio at the end of 1998, compared to 1.3% at December 31, 1997.

Non-performing investments, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totalled $107 million or 0.2% of invested assets at December 31, 1998, compared with $163 million and 0.3% a year earlier. The Corporation's allowance for credit losses at December 31, 1998 was $203 million compared with $183 million at year-end 1997. Normal provisions for credit losses charged to operations were $17 million in 1998, down from the 1997 level of $26 million.

Derivative Instruments

Derivative instruments or products are used by the Corporation for the following purposes:

- *Asset/liability management –*
  The use of forwards, futures, swaps and options as a supplement to portfolio investments allows the Corporation to modify a particular asset position or a portfolio profile to more closely match actual or committed liability characteristics, such as cash flow, term or currency.
- *Investment in United States operations –*
  The use of foreign exchange forwards and swaps allows the Corporation to hedge or manage a portion of its exposure to foreign exchange volatility with respect to its investment in the United States and the translation of its United States operating results into Canadian currency.

The Corporation's risk management process governing the use of derivative instruments, includes:

- The Corporation acts only as an end user of derivative products, not as a market maker.
- The Corporation has strict operating policies which
  - prohibit the use of derivative products for speculative purposes,
  - permit transactions only with approved counterparties,
  - specify limits on concentration of risk,
  - document approval and issuer limits, and
  - document the required reporting and monitoring systems.

The Corporation's outstanding derivative products at December 31 and the related exposures are described in note 12 of the Lifeco financial statements.

POLICY LIABILITIES

Actuarial Liabilities and Provision for Claims

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using gener-

ally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Asset and liability cash flows are carefully matched to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has shielded the Corporation's financial position from significant interest rate swings which have occurred.

Reference is made to note 4 of the Lifeco financial statements, Actuarial Liabilities, which presents the composition, nature, changes, assumptions and risk management issues associated with this significant balance sheet item.

RISK MANAGEMENT AND CONTROL PRACTICES

Insurance companies are in the business of assuming risk. Depending on the product being offered, the risks vary. Products are priced for target levels of return. As experience unfolds, pricing assumptions are validated and profit emerges in each accounting period. Policy liabilities reflect reasonable expectations about future risk events, together with a margin. While pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires up-to-date estimates to reflect emerging experience results. In this way, the balance sheet can be adjusted to reflect the current outlook for policyholder obligations.

The Boards of Directors of each operating company has approved Standards of Sound Business and Financial Practice for both Pricing and Underwriting (Selection of Risks) of product offerings. Management is responsible for effective execution of these policies. A compliance process is in place for these policies. The Actuary is required to value the policy liabilities and report on the financial condition of each operating company. The Audit Committee of the Board reviews the work of the Actuary.

The Corporation's significant risks and their monitoring and control are:

Mortality and Morbidity Risk

Many products provide benefits in the event of death. Benefits due to disabling conditions and medical or dental costs are also important product features. Research and analysis is continuously ongoing to provide the underpinning for pricing and valuation assumptions which properly reflect the markets where the Corporation is active.

Persistency (Policy Termination) Risk

Products are priced and valued to reflect how long policyholders will continue their contracts. This risk is important for expense recovery (higher costs are incurred in early contract years) and for long-term level premium products with increasing costs by age, where pricing is supported by assuming that not all policyholders continue their coverage. Annual research studies support pricing and valuation assumptions for the persistency risk.

Investment Yield Risk

Products are priced and valued based on the investment returns available on assets which back up the policy liabilities. Effective and continual communication between Pricing, Valuation and Investment management is required to contain this risk. Investment Policies have been approved by the Executive Committees of the Boards of each operating company. These policies provide guidance on the mix of assets allowable for each product segment. Yield rates are derived from the actual mix of assets put in place. Products with longer term cash flows and pricing guarantees carry more risk. Both Pricing and Valuation react to this risk by requiring higher margins where there is less yield certainty.

Reinsurance Risk

Products with mortality and morbidity risks have specific limits of retention approved by the Board of Directors on the recommendation of the Actuary. These limits are reviewed and updated from time to time. Companies providing reinsurance are reviewed for financial soundness. The Corporation is also protected from catastrophic events through purchased coverage.

For additional information on these risks, refer to note 4(d), 4(e), and 4(f) of the Lifeco financial statements.

YEAR 2000

The year 2000 (Y2K) problem arises when a computer performing date-based computations or operations

produces erroneous results due to the historical practice of using two digit years within computer hardware and software. This causes errors or misinterpretations of the century in date calculations. Systems that have a Y2K problem must then be corrected or replaced by systems that will operate correctly with respect to the year 2000 and beyond. The Corporation is dependent on computer technology to manage its business, including the functions of policy maintenance, claim payment and investment operations. This technology includes mainframe and non-mainframe environments as well as local and wide area networks.

The Corporation has comprehensive Y2K written plans for its major segments that encompass all computer hardware, software, networks, facilities (embedded systems) and telephone systems. These plans establish five phases for becoming Y2K compliant. Phase 1 is "impact analysis" which includes initial inventory and preliminary assessment of Y2K impact. Phase 2 is "solution planning" which includes system by system planning to outline the approach and timing for reaching compliance. Phase 3 is "conversion/renovation" which means the actual process of replacing or repairing non-compliant systems. Phase 4 is "testing" to ensure that the systems function correctly under a variety of different date scenarios including current dates, year 2000 and leap year dates. Phase 5 is "implementation" which means putting Y2K compliant systems into production. The risks are further managed within each application by identifying the impact and the probability of year 2000 problems and using this information to develop test plans and contingency plans.

Status – Canadian Operations

As at December 31, 1998, most critical systems have been corrected, tested and are back into production. Work in progress involves the replacement of selected systems with Y2K compliant third party software which is scheduled for completion in the first half of 1999. Contingency plans are in the process of being finalized based on impact and risk to Canadian Operations. These will include hardware recovery alternatives as well as potential manual work alternatives in the case of computer programs. In addition, both technical and operations staff will be available at critical times such as in December 1999 and the year 2000 to make decisions, corrections and execute contingency plans if necessary.

Canadian Operations' Y2K plan also identifies dependencies on vendors/suppliers and business partners based on the significance of their support, and assesses their year 2000 readiness based on information gathered from them through questionnaires and interviews. Contingency plans are prioritized based on the potential impact of third party Y2K problems on Canadian Operations. These plans include the identification of alternative sources of support, whether an alternative supplier or alternative process. To date, information received on these third parties has been positive, and further monitoring will be undertaken in 1999.

Costs are being charged to operations as incurred and are not expected to have a material impact on the consolidated results of operations and financial position. Canadian Operations has spent approximately $21 million on its Y2K project through the end of December 1998, with the total cost being projected at $27 million through the end of 2000.

Status – United States Operations

As of December 31, 1998, most of the work on critical systems has been completed. Other non-critical systems are all expected to be enhanced and be in production in the first half of 1999. Management is turning its attention to examining and testing dependencies on vendors and business partners. During 1999, U.S. Operations will develop contingency plans aimed at finding alternate methods of providing services in the event of failures by customers, vendors, or internal systems. As part of contingency planning, U.S. Operations will formalize plans surrounding the actual year-end transition. Both technical and operations staff will be on-site to examine year-end output before anything is sent to customers or regulators.

Costs are being expensed as incurred and are not expected to have a material impact on consolidated operations. U.S. Operations has spent approximately $14.4 million on Y2K initiatives through 1998, with total cost being projected at $22.6 million through the end of 2000.

CANADIAN OPERATIONS

The discussion of operating results is followed by a report on operations of the Canadian segment of Great-West Lifeco Inc., presented in terms of the major Canadian business divisions of The Great-West Life Assurance Company and London Insurance Group:

- ***Group Insurance*** – life, health and disability insurance products for group clients.
- ***Individual Insurance & Investment Products*** – life and disability insurance products for individual clients, as well as accumulation and payout annuity products for both group and individual clients.
- ***Reinsurance & Specialty General Insurance*** – life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche business markets.
- ***Investment*** – management of assets - general funds, segregated funds and other managed funds.

1998 CANADIAN OPERATING RESULTS

Reference is made to note 14 of the Lifeco financial statements, Segmented Information, for the presentation of Canadian operations and assets.

The Canadian segment of Great-West acquired 100% of the issued and outstanding common shares of London Insurance Group (LIG) in the fourth quarter of 1997. The Company's 1997 consolidated operations include the period from November 14 to December 31 of LIG's 1997 operating results.

Net income from Canadian operations of Lifeco for 1998 was $209 million, compared to $135 million for 1997 before the special charge in 1997 for integration. Net income attributable to common shareholders was $181 million, up from $114 million for 1997.

Great-West Lifeco Inc.

SELECTED CONSOLIDATED FINANCIAL INFORMATION – CANADIAN SEGMENT

(in $ millions)

	1998	1997
For the Year		
Premiums for life insurance, guaranteed annuities, insured health products, and reinsurance and property and casualty	**$ 6,408**	$ 2,568
Self-funded premium equivalents (ASO contracts)	**983**	686
Segregated fund deposits	**2,421**	1,219
Total premium income	**9,812**	$ 4,473
Fee and other income	**$ 237**	$ 122
Operating expenses	**717**	297
Net income before provision for integration costs		
Total	**$ 209**	$ 135
Common shareholders	**181**	114
Net income		
Total	**$ 209**	$ 40
Common shareholders	**181**	19
At December 31		
Total assets	**$ 32,478**	$ 31,381
Segregated funds assets	**12,959**	10,963
Other assets under administration	**374**	1,231
Total assets under administration	**$ 45,811**	$ 43,575

The positive earnings results were due to a combination of reduced operating expenses as a result of significant progress made toward integration of Great-West and London Life operations, strong investment results and increased segregated fund fee income, offset by deterioration in group morbidity.

Total assets under administration in Canada reflect an 18% growth in segregated fund assets in 1998, mainly due to strong sales.

Premium income reflects the continuing shift from guaranteed products to segregated funds.

The acquisition of LIG by Great-West in November 1997 resulted in Great-West having the leading market share, as measured by sales, in the major business lines of Individual Insurance, Disability Insurance, Retirement & Investment Services and Group Insurance. While size is not an objective in itself, it offers significant advantages in today's marketplace in being able to offer quality customer service at a lower cost.

Integration Costs

A provision for the integration of the operations of LIG and Great-West of $250 million, $142 million after tax, of which $95 million was attributable to common shareholders, was charged to 1997 earnings. Throughout 1998, a large number of integration activities were underway and are now in various stages of completion. At year end, 47% remained available to fund completion of the integration activities, which management believes is an adequate provision. The major types of costs incurred to date include information system conversion, including the purchase of software, contract staff and consulting services; severance costs, communication; and travel.

GROUP INSURANCE

The Group Insurance Division provides a wide range of group insurance products to more than 22,000 employers across Canada. The Division has significant presence in all market segments – by region, case size and product. Great-West covers more than 8.0 million Canadians through its group products – life and accidental death and dismemberment insurance, short and long-term disability insurance, drug, dental and visioncare coverage not provided by Medicare and employee assistance plans.

The goal of the Group Division is to enhance its position as the pre-eminent multi-line group insurer in Canada through strong customer focus, continued innovations in products and services, and the development of unique solutions to meet emerging client needs.

During 1998, the Group Division experienced:

- continued growth in sales during a period where a major focus on integration prevailed throughout the entire sales organization,
- dramatic growth in revenue premium, particularly in the target markets,
- strong business persistency, and
- deterioration in mortality and morbidity results.

Group sales totalled $166 million, up 14% from 1997. Sales results in the small to mid-sized markets grew in 1998, reflecting the distribution system's ability to continue delivering industry leading sales results while at the same time converting London Life clients to Great-West products and administrative services. New sales opportunities emerged in the large case market, where sales were up 33% over 1997.

GROUP INSURANCE – DIVISIONAL SUMMARY

(in $ millions)

	Case size		
	Small/Medium	Large	Total
For the year ended December 31, 1998			
Sales	**$ 94**	**$ 72**	**$ 166**
Revenue premium income	**894**	**1,835**	**2,729**
For the year ended December 31, 1997*			
Sales	$ 91	$ 54	$ 145
Revenue premium income	467	1,278	1,745

**Includes LIG results from November 14 - December 31, 1997*

Revenue premium, at $2.7 billion, was up 56% in total, significantly expanding Great-West's leading marketshare position. The acquisition of the London Life group insurance business was the driving force behind the large growth. The strong persistency of the London Life group business substantially improved the Company's market position in the target market of small and mid-sized businesses – where revenue premium growth was 91%.

The Group Division's expense ratio (expenses over revenue premium) was up in 1998, a reflection of the more expense intensive London Life business and the shift in business growth towards the small and mid-sized clients. Once integration is complete, improvement in the expense ratio is projected as expenses are reduced.

Group mortality results deteriorated in 1998 but were above long-term historical levels. Group morbidity results also deteriorated in 1998. Within the acquired London Life block of business, the health results were unfavourable but these were offset by a much improved result in the volatile disability line of business. Both the health and disability morbidity results in the Great-West block of business were well below expectations, however remedial solutions were put in place in 1998.

During 1998, the centralized health and dental claims offices handled 9.7 million claims. A further 1.0 million dental claims were electronically adjudicated through an on-line dental claims submission system connected with selected dental offices across Canada. Currently 18% of all dental claims are handled electronically. This percentage will increase as London Life clients are introduced to this service. Another 5.8 million individual drug prescriptions were electronically adjudicated through the pay direct drug system in pharmacies across Canada. The growth in electronic claims adjudication provides significant opportunity to lower expenses while improving customer service.

In addition to the focus on conversion activities during the year, Great-West continued to progress on business initiatives started in 1997. Among these is the development of new systems to enhance the services provided to customers. In 1998, Great-West introduced new billing and enrollment systems along with enhancements to *GroupNet*, our Internet-based administration system. Enhancements to *GroupNet* allow clients to generate management reports and

INTEGRATION UPDATE – GROUP INSURANCE

In 1998, the Group Division focused on developing and implementing a plan to successfully integrate the group insurance operations of London Life and Great-West. Significant progress included:

- Conversion of over 8,100 small group customers to Great-West systems, administrative processes and products was completed.
- Over 30% of the remaining 2,100 mid-sized and large customers have also been converted and the Group Division is on target to complete the conversion by the summer of 1999.
- A number of system upgrades were made at Great-West to accommodate product and service features offered to London Life clients. For example, employees can now submit health and dental claims and receive payment electronically through electronic funds transfer, without the delays inherent in paper claim forms and mail.
- Great-West also expanded its product shelf to include specialized benefit coverage for U.S. based employees of Canadian customers.
- Major processes and policies of the two operations were harmonized in underwriting, disability, health and dental claims offices and marketing and sales functions.
- A new Divisional management structure was planned and implemented, creating an organization more focused on the customer, product and service.

During all this activity, Great-West maintained its customer service levels, and continues to closely monitor a number of service measures. An indication of service caliber is customer retention throughout the conversion process, which has exceeded expectations.

enroll employees in their benefit plans, through the Internet. This places Great-West at the forefront of insurance providers in Internet-based service. In 1999, the Company plans to add more sophisticated client inquiry functions, such as inquiries on claims. Together, these new systems offer clients enhanced accuracy through eliminating re-keying of information, new customized reporting and more flexibility in how they provide information to Great-West. Clients can now deal with Great-West through electronic files, the Internet or paper.

Great-West also introduced software to help smaller employers administer flexible benefit plans. ClienTEL for Windows provides total plan administration, helping make flexible benefit plans more affordable for smaller employers.

Distribution

Great-West's group insurance products are marketed through a number of large distribution channels supported by sales and service personnel located in group field offices and individual Resource Centres across Canada. In 1998, Great-West added three new group field offices to its nationwide network, and nearly doubled its sales and service force with the addition of London Life group personnel. These distribution channels in the past have included Great-West affiliated agents, brokers, independent agents, benefit consultants and Investors Group representatives. The acquisition of LIG has added two new channels – the General Sales Division and District Sales Division of London Life.

Outlook

Great-West enters 1999 in a strong competitive position relative to the market. The addition of London Life's complementary client and product mix has strengthened the Company's position in all markets, but particularly in the target small group market. With an overall combined market share approaching 19%, the Company leads the industry in new sales to small and mid-sized employers and has the lowest unit cost of any of its major competitors.

Unlike many of its competitors, who are facing significant organizational changes in the coming years, Great-West's Group Division has completed most of that process and is positioned to take advantage of the benefits of the acquisition and subsequent reorganization. The Group Division has a sustainable competitive advantage, based on size, low expense levels, effective management information systems and quality of data.

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

This Division provides Great-West and London Life branded products – life and disability insurance products for individual clients, as well as accumulation products including guaranteed products and segregated funds, and payout annuity products for both group and individual clients.

The objectives for the Division are to:

- provide valued services and products for its representatives and customers,
- achieve steady growth in revenue premiums for the insurance products and growth in assets for the annuity products,
- achieve lower unit costs, and
- produce acceptable returns to both participating policyholders and shareholders.

Other important objectives in 1998 related to the acquisition of LIG were to:

- combine the individual life insurance operations and retirement & investment services operations of the two companies,
- establish a group retirement services distribution organization,
- expand the number of segregated funds being sold by London Life representatives,
- add the Great-West disability insurance product to the shelf of products being offered by the London Life representatives, and
- enhance the effectiveness of the London Life distribution organization in terms of agent productivity, recruiting and retention.

Individual Life Insurance

The Division manufacturers and services non-participating and participating forms of life insurance. The products manufactured for London Life are proprietary to the London Life field force, while the products manufactured by Great-West are sold by Great-West and Investors Group representatives as well as independent brokers. Non-participating life insurance poli-

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS – DIVISIONAL SUMMARY

(in $ millions)

	Individual Life Insurance	Individual Disability Insurance	Retirement & Investment Services	Total
For the year ended December 31, 1998				
Sales				
– Participating policyholders	**$ 69**	**$ –**	**$ –**	**$ 69**
– Non-participating policyholders	**41**	**18**	**2,980**	**3,039**
Total	**110**	**18**	**2,980**	**3,108**
Revenue premium income				
– Participating policyholders	**$ 1,259**	**$ –**	**$ 2**	**$ 1,261**
– Non-participating policyholders	**247**	**93**	**2,757**	**3,097**
Total	**1,506**	**93**	**2,759**	**4,358**
For the year ended December 31, 1997*				
Sales				
– Participating policyholders	$ 17	$ –	$ –	$ 17
– Non-participating policyholders	14	15	1,439	1,468
Total	31	15	1,439	1,485
Revenue premium income				
– Participating policyholders	$ 289	$ –	$ 1	$ 290
– Non–participating policyholders	129	87	1,310	1,526
Total	418	87	1,311	1,816

* *Includes LIG results from November 14 to December 31, 1997 where applicable.*

cies are managed in the shareholder account and consist of term insurance, universal life and permanent insurance. Participating life insurance policies are managed in separate participating accounts in each company and the policyholders are eligible to receive policyholder dividends based on the performance of the participating account. The performance of the participating account is primarily dependent on the effectiveness of underwriting, expense management, tax costs and investment performance. The policyholder dividend scales are reviewed annually and the 1998 policyholder dividend scales for both companies remained unchanged from 1997. Total policyholder dividends credited in 1998 were $522 million ($447 million for London Life and $75 million for Great-West).

A regulated percentage of returns in the participating account is credited to the shareholders' account. In 1998 the amount was $14.9 million ($12.6 million for London Life and $2.3 million for Great-West).

London Life's participating block of business is the largest in Canada with 2.2 million policies and assets totalling $10.3 billion at the end of 1998. The Division's sound management of their participating blocks of business has enabled them to deliver long-term policyholder dividend performance that is consistently among the best in the industry.

Mortality results were favourable and customer retention was at expected levels for all product lines.

Individual life insurance sales, as measured by annualized premium, reached $110 million in 1998. Revenue premium exceeded $1.5 billion.

In 1998, the insurance industry experienced modest growth in terms of new annualized premiums, primarily due to universal life sales. The universal life products in the industry were priced at levels which management does not feel were profitable or sustainable. The Division prices its universal life product at levels believed to be sustainable and provide adequate profitability and therefore did not achieve growth in its universal life sales in 1998. Toward the end of 1998, some of the universal life carriers announced price increases which, when combined with the product enhancements planned in 1999 for both the Great-West and London Life products, will help to increase universal life sales.

Under an agreement with I.G. Insurance Services Inc. (a subsidiary of Investors Group Inc.), Great-West provides individual term and participating life insurance products to Investors Group representatives. Investors representatives accounted for 34% of Great-West's unconsolidated life insurance sales premium in 1998.

During 1998, the Division improved the competitiveness of its term products by reducing premium rates to reflect improved mortality experience.

The Division expanded its Tax and Estate Planning Group which is comprised of accountants and lawyers who assist in meeting the needs of representatives and customers in advanced planning situations. The Tax and Estate Planning Group was expanded from 5 to 14 members and are now located in most major centres across Canada serving both London Life and Great-West representatives.

Disability Insurance

The Division's individual disability insurance (DI) business is built on three pillars: insurance products that provide high consumer value, support for agents in the form of state-of-the-art technology and education, and representative compensation that recognizes ongoing service to clients.

The Division's financial objectives are to achieve steady growth in the individual disability insurance business, improvements in unit cost, and overall morbidity results that are within the levels anticipated in product pricing. During 1998, DI performed well against its financial objectives with:

- growth in new annualized premium,
- growth in revenue premium,
- improved unit costs, and
- morbidity results below pricing levels.

Sales of non-cancellable DI increased by 20% during 1998 in terms of new annualized premium in a market that increased by approximately 5%. Sales for *"Competitor"*, Great-West's cancellable product, increased 16% over 1997 for a total of $2.8 million in new annualized premium.

London Life does not have a proprietary DI product, and became an intercorporate partner selling Great-West DI at the end of 1997. In April 1998, Great-West became the exclusive provider of individual DI products for London Life. The increase in total DI sales in 1998 was primarily due to the sales from the London Life sales force.

Ten intercorporate partners (including London Life and Investors Group) sell Great-West's disability insurance products through their representatives. These intercorporate arrangements accounted for 46% of disability sales in 1998. Brokers, another important source of disability business, accounted for 26% of dis-

INTEGRATION UPDATE – INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

The integration of the Individual Insurance & Investment Products operations of London Life and Great-West progressed well in 1998. The combined operations hold the leading market share in Canada for disability and life insurance as measured by new sales and revenue premiums, and for segregated funds in terms of sales and assets.

In 1998:

- the operations of Great-West's individual life insurance and R&IS businesses were moved from Winnipeg to London, and a single management team was put in place to oversee these operations for both companies,
- a Customer Service Centre was established in London to provide assistance to customers and representatives of both London Life and Great-West,
- a fully-integrated group retirement sales and service organization was put in place to serve group clients,
- selected administrative functions for Great-West's Quebec individual insurance customers were transferred to Montreal to the service center previously established to service Quebec for London Life,
- the major practices and procedures of the two operations were harmonized,
- integration of major systems was started.

The major focus in 1999 will be to continue implementing a systems strategy which will further reduce costs and improve service to customers.

ability sales for the year. The balance, 28%, was sold by Great-West agents.

Great-West's DI market share, in terms of new sales, increased from 26% to approximately 30% moving it from the second position to the leading position in the Canadian individual DI market.

Productivity improvement and expense management have been a main focus in recent years. Overall unit costs for DI declined by approximately 4% from 1997 levels. Individual DI revenue premiums were $93 million for 1998, a 7% increase over 1997. Both morbidity results and client retention were at favourable levels in 1998.

The Division's emphasis on sound expense management and service will continue in 1999, along with the introduction of new marketing concepts to help sales representatives identify and provide for the financial security needs of their clients. The London Life and Investors Group distribution channels offer tremendous potential and in 1999 there will be an increased focus on further developing these sources of DI sales.

Retirement & Investment Services

Retirement & Investment Services (R&IS) provides long-term savings and investment products for individuals and employer groups. The Division focuses its sales and reinvestment activities on segregated funds, which offer the potential for superior investment returns for customers and satisfactory profit margins for the Company. The goal of the Division is to be the pre-eminent segregated fund provider in Canada.

The individual products manufactured for London Life are proprietary to the London Life field force, while the individual products manufactured by Great-West are sold by Great-West representatives as well as independent brokers.

For group retirement business, London Life representatives also have a proprietary product for small cases (under $75,000 in premium), but a common product is marketed in the larger employer market.

GWL Investment Management Ltd. (GWLIM) and London Life Investment Management Ltd. (LLIM), both wholly-owned subsidiaries, are responsible for client service and marketing to large pension funds. In addition, GWLIM and LLIM manage a number of the Company's pooled and separately managed investment funds.

During 1998, R&IS experienced:

- growth in individual savings plan segregated fund assets in excess of the 15% growth rate of the Canadian mutual funds industry,
- growth in combined individual and group savings plan segregated fund assets of 18%, and
- a continued shift from guaranteed interest

RETIREMENT & INVESTMENT SERVICES – DIVISIONAL SUMMARY

(in $ millions)

	Individual Savings Plans	Group Savings Plans	Group Investment Management	Payout Annuities	Total
December 31, 1998					
Sales premium	**2,429**	**231**	**138**	**182**	**2,980**
Revenue premium income	**1,792**	**784**	**92**	**91**	**2,759**
Assets under administration					
Guaranteed	**2,079**	**1,479**	**–**	**3,631**	**7,189**
Segregated funds	**6,156**	**2,858**	**3,945**	**–**	**12,959**
Total	**8,235**	**4,337**	**3,945**	**3,631**	**20,148**
December 31, 1997					
Sales premium*	1,112	46	207	74	1,439
Revenue premium income*	786	301	190	34	1,311
Assets under administration					
Guaranteed	2,643	1,680	94	3,773	8,190
Segregated funds	4,672	2,388	3,903	–	10,963
Total	7,315	4,068	3,997	3,773	19,153

** Includes LIG results from November 14 to December 31, 1997*

options to segregated funds for new and renewing investors.

The 1998 RRSP season was very strong for the investment fund industry and for R&IS, as a result of increased contributions, low interest rates, and strong investment markets. The Company continues to benefit from asset allocation software (Great-West's *Discovery*, introduced in January 1996, and London Life's *Investment Voyager*, introduced in December 1997) which led to below industry lapse rates during the volatile investment markets of 1998. Revenue premium income for the full year was $2.8 billion, of which 88% was directed toward segregated funds.

To maintain its longer term growth and profitability objectives, R&IS must continue to increase segregated fund assets. To this end, several product and service enhancements were introduced in 1998:

- Great-West enhanced its agent software to provide "client rate of return" and electronic account management functions for RRIF products; and *Discovery*, to provide increased client education facilities and specific income oriented portfolio recommendations.
- London Life expanded the segregated funds offered to individuals from seven to 40 funds, and enhanced *Investment Voyager* to assist clients with asset allocation.

INTEGRATION UPDATE – GREAT-WEST INDIVIDUAL DISTRIBUTION

In 1998, the Great-West distribution organization continued to focus on strengthening its Resource Centres and aligning them to support London Life distribution of Great-West DI and small group insurance products:

- The Resource Centre management structure was realigned to provide greater focus on increasing distribution through new inexperienced agents and productive brokers.
- London Life group insurance managers and specialists were integrated into the Great-West product support structure to support London Life representatives in the sale of the Selectpac small group insurance product.
- The DI product support structure was expanded to support London Life in the distribution of Great-West's [illegible] DI products.

INTEGRATION UPDATE – LONDON LIFE INDIVIDUAL DISTRIBUTION

During 1998, significant enhancements were made in the London Life distribution organizations:

- Great-West individual DI and group insurance products were introduced with enhanced sales compensation.
- The London Life individual segregated fund product shelf was expanded from seven to 40 funds with enhancements to asset based compensation and bonusing.
- An expense allowance was introduced for London Life representatives which allows them to invest in additional sales support services through the London Life agencies.
- Life insurance and R&IS product specialist roles were introduced to further enhance the sales of these products.
- The London Life agency management structure was redesigned to align new management roles with the differing needs of new, established and high performing representatives. At the same time, regional offices were consolidated to improve cost-effectiveness while maintaining a local presence in all geographic markets.

Integration initiatives for 1999 include:

- A strategic compensation redesign is underway with life insurance vesting being the first major deliverable in the later part of 1999. This compensation system redesign represents a single system solution which will ultimately support the compensation design and payment needs for London Life, Great-West and Investors Group.
- London Life customer service is being centralized in the Customer Service Centre located in London. While representing significant expense savings to the organization, this will provide enhanced service access to London Life customers as well as freeing up high quality staff to provide sales support to representatives.

INDIVIDUAL DISTRIBUTION	Distribution Channels				
	GWL Canada	London Life	Investors Group	Intercorp Partners	Active Brokers
No. of representatives	770	2,906	3,774	2,500	4,481
Products distributed					
Individual Life Insurance					
– Great-West	●		●	●	●
– London Life		●			
Individual Disability Insurance					
– Great-West	●	●	●	●	●
Retirement & Investment Products					
– Great-West	●		●	●	●
– London Life		●			● *
Group Insurance					
– Great-West	●	●	●	●	●

** Brokers have access to London Life large case Pension products only.*

Management of Segregated Funds

Great-West now offers 42 individual segregated funds, including funds managed by GWLIM, Putnam Advisory Company Inc., Mackenzie Financial Corporation, AGF Management Limited, Sceptre Investment Counsel Limited and Beutel, Goodman & Company Ltd.

London Life now offers 40 individual segregated funds, including funds managed by LLIM, GWLIM, Fleming Canada Partners, MAXXUM Fund Management, Mackenzie Financial Corporation, AGF Management Limited, Sceptre Investment Counsel Limited and Beutel, Goodman & Company Ltd.

The expanded fund selection and asset allocation software have been well received by clients and their advisors and contributed to the dramatic growth in segregated funds the Company experienced in 1998.

In 1999, the Company will review industry developments regarding maturity and death benefit guarantees for segregated funds and define any prudent product changes that should be considered.

This combination of pre-eminent products, sophisticated software and strong asset management is expected to generate the continued segregated fund growth necessary to improve the Company's competitive position and maintain adequate profitability levels.

The major focuses in 1999 will be:

- to continue implementing a systems strategy which will further reduce cost and improve service to customers,
- co-ordinate the product offering for the large group R&IS market, and
- improve the overall product offering for individual London Life clients.

Distribution System

Individual insurance products are sold and serviced through a comprehensive distribution network.

Great-West is represented by independent agents who distribute Great-West manufactured individual and group products. Although their contract allows them to market other companies' products, these agents place over 85% of their sales with Great-West. This can be attributed to the strength of Great-West's product portfolio as well as the high quality product and sales support through Great-West's Resource Centres across Canada. The Great-West sales force is highly automated, with all representatives using mobile notebook technology, electronic applications and electronic investment allocation software.

London Life is represented by two exclusive distribution organizations – the General Sales Division with 800 full-time representatives, and the District Sales Division with 2,100 full-time representatives. They distribute a broad range of products and services, including proprietary London Life retirement, investment and life insurance products as well as Great-West individual disability insurance and group insurance products. The London Life sales organizations are separate from and compete with the Great-West sales force. London Life's continuing success

comes from an ability to attract, train and develop new and inexperienced representatives.

Investors Group is a significant distributor of Great-West insurance and DI product lines, as well as distributing Great-West group insurance. Investors Group representatives continue to increase their insurance sales activity through sales to their existing customers. In 1999, Investors Group representatives began selling a special IG series segregated fund product developed by Great-West.

Great-West's Resource Centres provide disability insurance and group insurance product training and sales support for the London Life and the Investors Group distribution organizations. Great-West also leverages its Resource Centres by using them as DI and small group insurance support hubs for all distribution channels, including brokerage and ten intercorporate partners. Brokerage represents a significant channel with respect to distribution of individual disability insurance and Selectpac small group insurance.

On the technology front, 1999 will be a significant year for the London Life sales organizations. By year end, all representatives will be using mobile notebook technology including an electronic life insurance application, an electronic investment fund application, an updated contact management system and remote data and communication access through the Intranet.

The Investment Division is responsible for managing both Great-West and London Life general funds and segregated funds assets. Within the Company's conservative investment policies, the Investment Division manages portfolios of assets to produce a steady source of income to support the cash flow and liquidity requirements of the Company's insurance and investment products. The Company invests the majority of its general funds in medium-term and long-term fixed-income securities, primarily bonds and mortgages, which reflect the nature of the liabilities being matched.

The Division reviews its investment strategy on an ongoing basis in light of liability requirements and current economic and market conditions. The Company's investment policies limit concentrations of risk within its investment and lending portfolios, which are well-diversified by asset class, industry sector, location and size of borrowers.

Net investment income was $2.1 billion in 1998, including a full year of LIG investment income. Investment income in 1998 reflected lower interest rates, as economic turmoil outside of North America and weak commodity prices led to lower investment yields at all terms. Yields on government bonds for terms of one to 30 years decreased 30 to 75 basis points over the year. The yield differential between one year and 30 years was 55 basis points at December 31, 1998, versus 105 basis points at the start of the year.

During 1998, the overall quality of the Company's investment portfolios improved. New investment activity was directed to government and corporate bonds (55%), and to commercial and residential mortgages (45%).

INTEGRATION UPDATE – INVESTMENT

The investment operations of LIG were integrated with Great-West's Canadian investment operations during 1998. Operations were consolidated into a single headquarters in Winnipeg, and commercial mortgage and real estate field offices were consolidated in Vancouver, Calgary, Toronto and Montreal.

London Life Investment Management Ltd. was established as the investment advisor and manager of London Life segregated funds. Based in London, it is separate and distinct from Winnipeg-based GWL Investment Management Ltd., though both are supported by a common administrative infrastructure in Winnipeg.

Arrangements were made for Investors Group to provide underwriting, marketing, administration and call centre services for London Life's residential mortgage operations. While London Life mortgage specialists continue to provide London Life residential loans to their customers, administrative functions were integrated during 1998 with Investors Group's residential mortgage operations.

Integration work is continuing in 1999, largely to convert to common computer applications. Economies of scale and common technology platforms will lead to lower unit costs in managing consolidated invested assets.

ASSET DISTRIBUTION

December 31 (in $ millions)

	1998		1997	
Government bonds	**$ 7,643**	**28 %**	$ 6,655	24 %
Other bonds	**8,921**	**32**	8,362	30
Mortgages	**8,129**	**29**	9,011	32
Stocks	**719**	**3**	731	3
Real estate	**950**	**3**	1,297	5
Sub-total portfolio investments	**26,362**		26,056	
Cash & certificates of deposit	**266**	**1**	581	2
Policy loans	**1,204**	**4**	1,132	4
Total invested assets	**$ 27,832**	**100 %**	$ 27,769	100 %

BOND PORTFOLIO QUALITY

(excludes $452 million short-term investments, $672 million in 1997)

December 31 (in $ millions)

	1998		1997	
Estimated Rating				
AAA	**$ 5,696**	**35 %**	$ 4,372	31 %
AA	**2,831**	**18**	2,788	19
A	**5,844**	**36**	5,324	37
BBB	**1,597**	**10**	1,620	11
BB or lower	**144**	**1**	241	2
Total	**$ 16,112**	**100 %**	$ 14,345	100 %

As in the previous year, bonds accounted for the largest percentage of new investments. During 1998, the bond portfolio increased by $1.5 billion to $16.6 billion. Federal, provincial and other government securities increased to 46% of the bond portfolio, while corporate bond investments decreased to 54% of the bond portfolio.

The Company continued to follow strict industry and issuer diversification policies in the bond portfolio, to minimize exposure to individual credits. These prudent investment policies, combined with conservative underwriting and lending practices, contributed to the very high credit quality of the portfolio. At year-end 1998, 89% of the consolidated bond portfolio was rated A or higher, and 99% was rated investment grade. Non-performing bonds declined to $4 million at the end of 1998 from $9 million in 1997. The allowance for credit losses on bonds was $3 million, up from $2 million in the previous year.

The mortgage portfolio is well-diversified by location, property type and industrial class, and includes both commercial and residential mortgages. The quality of the mortgage portfolio improved during 1998. The aggregate amount of non-performing mortgage loans, including foreclosed real estate, declined to $78 million, or 0.3% of portfolio investments, at the end of 1998. This compares to $101 million a year ago. The total allowance for credit losses on mortgages was increased to $59 million at year-end 1998, up from $49 million at year-end 1997. The allowance was increased in the LIG portfolio as consistent policies were applied to the Great-West and LIG portfolios following integration of the investment operations.

At year end, 3% of invested assets were held in real estate, down from 5% in 1997. During 1998, the Company continued to dispose of non-strategic assets. The Company sold its interests in 13 properties, including its interest in Place Bonaventure in Montreal, and its interest in Devan Properties, a London Life real estate subsidiary. The Company maintained an allowance with respect to the carrying value of its real estate portfolio of $38 million, in recognition of possible losses associated with real estate values.

Outlook

Capital market volatility continued in the early part of 1999, reflecting economic problems that have spread from Asia to Eastern Europe and, more recently, to South America. The outlook for the domestic econo-

my, however, is more favourable. Economic growth is expected to moderate, but remain positive, and inflation and interest rates are expected to remain at relatively low levels. While credit spreads in the fixed-income markets have retraced some of the significant widening experienced in the second half of last year, they remain above historic low levels that prevailed earlier in 1998. In this environment, the Company's conservative policies and emphasis on quality will be continued.

Liquidity

The Company uses a number of techniques in the general funds to manage liquidity. Assets are acquired to provide cash flows designed to match the requirements of liabilities. The liabilities are designed to improve the predictability of their cash flows and to reduce the risk of disintermediation to the Company. A portion of the Company's assets are held in highly marketable securities that can be sold to meet cash flow requirements prior to maturity. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access the capital markets for funds.

Liquid assets of $14.7 billion provide adequate levels of liquidity, particularly when used in combination with the other methods of liquidity management available to the Company.

RISK MANAGEMENT AND CONTROL PRACTICES

The Company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability.

The Executive Committees and the Investment and Credit Committees of the Boards of Directors annually approve Investment & Lending Policies, Procedures and Guidelines, and Segmented Investment Policy Guidelines by major line of business. A comprehensive report on compliance is presented to the Investment and Credit Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies on a periodic basis.

The significant risks the Investment Division manages, monitors and controls are outlined below.

Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not perfectly matched and interest rates change.

LIQUID ASSETS – CANADIAN OPERATIONS

December 31 (in $ millions)

	1998		1997	
	Balance Sheet Value	**Market Value**	**Balance Sheet Value**	**Market Value**
Cash & certificates of deposit	**$ 245**	**$ 245**	$ 573	$ 573
Highly marketable securities				
- Government bonds	**7,386**	**7,784**	5,826	6,020
- Corporate bonds	**4,818**	**5,066**	4,755	4,974
- Common/Preferred shares	**415**	**447**	457	465
- Residential mortgages (insured)	**1,872**	**1,870**	1,920	1,867
Total	**$ 14,736**	**$ 15,412**	$ 13,531	$ 13,899

LIABILITY CHARACTERISTICS – CANADIAN OPERATIONS

December 31 (in $ millions)

	1998		1997
	Book Value	**Liquidity Need**	**Book Value**
Policies non-cashable prior to maturity	**$ 10,506**	VERY LOW	$ 9,933
Policies subject to market value adjustment	**4,503**	LOW	5,300
Policies with surcharges	**8,240**	MODERATE	6,893
Policies with no surcharges	**1,933**	MODERATE	2,036
Total	**$ 25,182**		$ 24,162

For asset/liability management purposes, the general funds are divided into segments. Assets in each segment are managed in relation to the liabilities in the segment. The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly. Limits are established for each factor, each segment and the Company in total.

These measures of interest rate risk are reported regularly to senior management and the Investment and Credit Committee.

Derivative products are used only to hedge imbalances in asset and liability positions; they are not used for speculative purposes. Derivative products are traded with counterparties approved by the Investment and Credit Committee. They may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts.

Credit Risk

It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company. Guidelines specify minimum and maximum limits for each asset class.

Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review. Generally, the most conservative rating is adopted. The lower rated bonds are monitored continuously and reviewed regularly with the Investment and Credit Committee.

The internal commercial mortgage risk rating system grades credit risk based on market risk, property attributes, property operations, loan to value ratios, borrower/guarantor financial strength, and specific market risks. Criteria for recognition of arrears and collection procedures are clearly defined. Lower rated mortgages are monitored continuously and reviewed regularly at Investment and Credit Committee meetings.

Off-balance sheet credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative than those recommended in OSFI guidelines.

Liquidity Risk

The Company maintains sufficient operating liquidity to meet daily cash requirements. In addition, investment policy for each segment provides for liquid assets at least sufficient to handle the premature surrender of 50% of its cashable liabilities.

Foreign Exchange Risk

Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

Other Risks

The Company has established specific policy guidelines related to environmental risk management in the investment portfolios.

SEGREGATED FUNDS

The Investment Division supports the Company's strategic emphasis on segregated funds through wholly-owned subsidiaries, GWL Investment Management Ltd. (GWLIM) and London Life Investment Management Ltd. (LLIM), which provide the specialized investment management and service demanded by customers. GWLIM and LLIM act as investment advisors to over

SEGREGATED FUNDS ASSETS

December 31 (in $ millions)

	1998	1997	1996	1995	1994
Stocks	**$ 6,914**	$ 6,180	$ 2,788	$ 1,943	$ 1,520
Bonds	**3,837**	3,094	1,374	1,134	1,121
Mortgages	**960**	872	440	510	507
Real estate	**868**	415	226	210	236
Other	**380**	402	71	157	148
Total	**$ 12,959**	$ 10,963	$ 4,899	$ 3,954	$ 3,532
Internally-managed	**10,754**	9,397	4,359	3,834	3,486
Externally-managed	**2,205**	1,566	540	120	46
Year over year growth	**18%**	124%	24%	12%	–

200 major institutional clients, and offer one of the broadest ranges of investment options in separate and pooled funds in Canada.

During 1998, segregated fund assets under management grew by $2 billion or 18%, to $13 billion at year end. Included in the segregated fund assets is $103 million of seed money from Great-West and London Life, the majority of which was deposited in 1998 for the introduction of the 33 new individual funds at London Life. The segregated fund assets also includes 81 funds, totalling $2.2 billion, managed by 19 external managers as sub-advisors to GWLIM and LLIM.

URANCE AND SPECIALTY INSURANCE

This business segment includes the operations of three major subsidiaries which participate in life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche markets.

London Reinsurance Group (LRG)

Reinsurance contracts are legal agreements in which an insurer transfers certain risks on its insurance policies to another insurer, called a reinsurer. LRG primarily assumes a lower amount of risk under its specialty reinsurance contracts than a traditional reinsurer. LRG has recently entered the traditional markets in a cautious and controlled manner.

The operations of LRG allow it to selectively participate in attractive, mature global markets and diversify London Life's retail and other insurance operations. LRG reinsures life, property and casualty, accident and health and annuity business through operating companies in the United States, Barbados and Ireland. Contracts are custom designed, underwritten and marketed to major insurance and reinsurance companies around the world, but primarily in the United States and Europe. High quality, financially strong clients with whom long-term relationships can be developed are selected. A variety of products are written to ensure a good mix of business and spread of risk.

Each of the reinsurance lines of business has different financial dynamics. In some contracts, premiums are collected, claims paid and earnings are derived from insurance margins and investment income. In other instances, earnings are derived primarily from spread income or fees.

The objective of LRG is to achieve consistent earnings growth through increased production, careful management of underwriting and investment risk, diversity and expansion of reinsurance and financial products offered, and control over expenses. The profitability of the reinsurance portfolio is managed in the aggregate as well as by contract.

LRG is recognized as a leading provider of reinsurance throughout the world as ranked by premiums written. LRG made excellent progress in 1998 as its client base grew and it maintained its unbroken record of delivering increasing profits. Strong performance and growth in the property and casualty reinsurance line, combined with solid earnings and significant growth in the life reinsurance business, contributed to record underwriting results. Net earned premiums increased by 48% and assets increased by 46% from last year as a result of increased business volumes.

LRG's capacity to write financial reinsurance business is determined primarily by its ability to issue letters of credit to clients and maintain a strong liquidity position. During 1998, LRG successfully arranged a U.S. $1.2 billion syndicated letter of credit facility. This facility will provide LRG with the additional financial resources necessary to develop its business further.

Reinsurance organizations operate in a constantly changing and challenging environment. Success depends on the ability to adapt to this shifting landscape and capitalize on opportunities that emerge during times of uncertainty. LRG's response to this environment is to provide flexible, creative support to its clients to help them manage the financial uncertainty created by change.

The consolidation of the reinsurance industry is probably the most significant trend affecting how reinsurance business is conducted. LRG's response to this industry consolidation has been to broaden its life and non-life reinsurance product offerings, strengthen its relationships with core clients and develop an increasing amount of business from international sources.

SELECTED FINANCIAL INFORMATION

(in $ millions)

	London Reinsurance Group	London Life International	London Guarantee	Other	Total
December 31, 1998					
Revenue Premium Income					
– Canada	$ –	$ –	$ 44	$ –	$ 44
– Barbados	2,425	–	–	–	2,425
– Other	221	35	–	–	256
Total	$ 2,646	$ 35	$ 44	$ –	$ 2,725
Assets					
– Canada	$ 8	$ –	$ 136	$ 60	$ 204
– Barbados	4,780	–	–	6	4,786
– Other	756	145	–	–	901
Total	$ 5,544	$ 145	$ 136	$ 66	$ 5,891
December 31, 1997					
Revenue Premium Income*					
– Canada	$ –	$ –	$ 7	$ –	$ 7
– Barbados	817	–	–	–	817
– Other	87	1	–	–	88
Total	$ 904	$ 1	$ 7	$ –	$ 912
Assets					
– Canada	$ 8	$ –	$ 159	$ 51	$ 218
– Barbados	3,141	–	–	4	3,145
– Other	650	133	–	–	783
Total	$ 3,799	$ 133	$ 159	$ 55	$ 4,146

** Includes results from November 14 to December 31, 1997.*

LRG will continue to develop strong business relationships in the insurance industry on a global basis and underwrite both life and non-life reinsurance contracts using a conservative and disciplined approach to underwriting.

The participating policyowners of London Life have a 10.6% interest in LRG.

London Guarantee

London Guarantee is committed to the underwriting of specialty products in the property and casualty insurance marketplace. The Company has three product line categories: (1) Surety, which includes surety bonds for the construction and real estate industries, miscellaneous bonds for commercial entities and completion bonds for the motion picture industry; (2) Corporate Risk, incorporating directors and officers liability, fidelity, fiduciary and professional liability insurance for public, private and not-for-profit entities; and, (3) Special Risk, comprising alternative risk-management solutions for commercial enterprises. These products are distributed through a network of over 700 independent insurance brokers located throughout Canada.

In order to limit its exposure to loss, London Guarantee uses pro rata sharing arrangements to cede approximately 25% of its underwriting risk to well-established North American and European reinsurance companies. In addition, the Company has reinsurance arrangements in place to limit both its share of large individual losses and the aggregated impact of a series of large losses.

Within its niche markets, London Guarantee differentiates itself from the competition through the quality of its underwriting and by maintaining strong relationships with its key brokers. This has permitted the Company to achieve levels of growth and underwriting profitability that are significant when compared to the property and casualty industry in general.

London Guarantee's markets for its corporate risk lines have become increasingly crowded over the last few years because of the margins that are achievable.

LONDON REINSURANCE GROUP PERFORMANCE MEASURES

December 31 (in $ millions)

	1998		1997	
	Revenue Premium	Assets	Revenue* Premium	Assets
Line of Business				
Life	**$ 1,943**	**$ 1,848**	$ 627	$ 1,089
Property and Casualty	**397**	**1,669**	204	1,100
Accident and Health	**71**	**100**	25	58
Annuity	**235**	**1,215**	48	926
Capital and Surplus	**–**	**712**	–	626
	$ 2,646	**$ 5,544**	$ 904	$ 3,799

Includes results from November 14 to December 31, 1997.

This has consequently placed significant pressure on prices. Regardless, the Company will not deviate from its focus on underwriting and the brokers it deals with, knowing that both are ultimately critical for its continuing success. For 1999, the Company is planning to increase the revenue premium in these lines by at least 12%.

The construction industry, which tends to lag economic cycles, is a significant source of surety revenue. If the economy does slow down in 1999, any impact on London Guarantee's business would not be expected until late in the year at the earliest. The Company's revenue premium grew by more than 20% in 1998, reflecting its dominant position in the buoyant Ontario and Quebec marketplaces. While this rate of growth is not anticipated for 1999, the Company's status as one of the top three surety companies in Canada, and its commitment to remain focused on underwriting quality and key broker relationships, will ensure it maintains and builds on its success in 1999.

London Life International

London Life International's business strategy is to develop joint venture partnerships with strong domestic partners who provide competitive advantage and share similar values, goals and expectations. London Life International commenced its retail insurance operations in Asia in 1993, with the establishment of Shin Fu in Taiwan. London Life International's headquarters are based in Kuala Lumpur, Malaysia.

Shin Fu

Shin Fu is a joint venture between London Life International and Central Investment Holding Company, a leading Taiwan diversified investment company; London Life International owns nearly 39% of Shin Fu. To meet statutory capital requirements in Taiwan, the capital of Shin Fu was increased to 3.4 billion New Taiwan dollars, approximately $160 million in 1998. London Life International's share of this increase was approximately $12 million. Of Shin Fu's assets, less than 6% are invested in the Asian stock markets.

Working with its partners, Shin Fu is adapting and implementing the career agent distribution and training systems that have provided the basis for London Life's success in Canada. After its rapid start-up growth, Shin Fu operations are now stabilizing with a strong core of over 600 full-time and 800 part-time sales representatives and field management focusing on attracting new sales, but also retaining customers. Customer retention has continued to improve over the past two years, and is currently substantially better than the industry average. Unit costs continue to decline as the premium base grows and economies of scale are achieved. An aggressive cost management program was successfully implemented during the year which helped to further improve the unit costs.

Shin Fu continued its growth strategy in 1998. Working from 34 regional offices which cover all major urban areas, Shin Fu distributes a variety of life insurance, endowment products and health insurance riders to the large middle market in Taiwan. The Company has more than 40,000 customers.

Other

Other businesses principally represent the operations of London Fund Management and the Trust Company of London Life. Both businesses have been sold to Investors Group effective December 31, 1998 pending regulatory approval.

UNITED STATES OPERATIONS

The discussion of operating results is followed by a report on operations of the United States segment of Great-West Lifeco Inc., presented in terms of the major business divisions of Great-West Life & Annuity Insurance Company (GWL&A):

- ***Employee Benefits*** – life, health, disability insurance and 401(k) products for group clients.
- ***Financial Services*** – accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients.
- ***Investment*** – management of assets – general funds, segregated funds and other managed funds.

1998 U.S. OPERATING RESULTS

Reference is made to note 14 of the Lifeco financial statements, Segmented Information, for the presentation of United States operations and assets.

Net income from United States operations of Lifeco in 1998 was $264 million, up from $210 million in 1997. Net income attributable to common shareholders was $256 million in 1998, compared to $200 million in 1997.

The increase in net income attributable to common shareholders reflects improvements in both divisions. The Financial Services increase is associated with improved investment income in the asset intensive lines and increased fee income. Employee Benefits earnings were positively affected by growth in variable fee revenue, reductions in unit costs in 401(k) and favourable mortality in group life insurance.

General fund and segregated fund assets in the United States increased 8% and 38%, respectively in 1998. The growth in segregated fund assets is a combination of the impact of strong equity markets and an increase in fund deposits in 1998.

ACQUISITION OF ANTHEM

In July of 1998, the Company acquired Anthem Health & Life Insurance Company (AH&L), a subsidiary of Anthem, Inc. (the Blue Cross & Blue Shield licensee for Indiana, Kentucky, Ohio, and Connecticut). This acquisition strengthens the U.S. operations by providing nearly $1.5 billion of health and life insurance premi-

Great-West Lifeco Inc.
SELECTED CONSOLIDATED FINANCIAL INFORMATION – UNITED STATES SEGMENT
(in $ millions)

	1998	1997	% Change
For the Year			
Premiums for life insurance, guaranteed annuities and insured health products	**$ 2,829**	$ 2,019	40 %
Self-funded premium equivalents (ASO contracts)	**3,866**	2,814	37
Segregated fund deposits	**3,276**	2,959	11
Total premium income	**$ 9,971**	$ 7,792	28 %
Fee and other income	**766**	581	32 %
Operating expenses	**729**	565	29
Net income			
Total	**264**	210	26 %
Common shareholders	**256**	200	28
At December 31			
Total assets	**$ 22,247**	$ 20,663	8 %
Segregated fund assets	**15,435**	11,199	38
Total assets under administration	**$ 37,682**	$ 31,862	18 %

um and self-funded premium equivalents and approximately 450,000 additional medical members.

The AH&L acquisition was a good strategic fit for the Company as the majority of its customers were in the same target market of small to mid-size employers who prefer to self-fund their benefit plans. The Company has started to integrate the AH&L business to a common systems platform with a scheduled completion date of July 1999. New and existing customers are being migrated to the One Health Plan network providing substantial new growth for One Health Plan, the Company's managed care subsidiary.

The life and health premium, including self-funded premium equivalents, since the date of acquisition was $781 million, and the Company recorded a small loss associated with AH&L operations in 1998. The impact of AH&L is included in the Employee Benefits results.

The Employee Benefits Division provides a full range of employee benefit products to more than 11,300 employers across the United States, excluding small case AH&L business. GWL&A offers employers the advantage of a total benefits solution – an integrated package of group life and disability insurance, managed care programs, 401(k) savings plans and flexible spending accounts. Through integrated pricing, administration, funding, and service, the Division helps employers provide cost-effective benefits that will attract and retain quality employees, and at the same time, helps employees reach their personal goals by offering benefit choices, along with information needed to make appropriate choices.

The Division distributes its products and services through GWL&A, New England Financial, and AH&L field sales staff located in 80 sales offices throughout the U.S. Each sales office works with insurance brokers, agents, and consultants in their local market. Although each sales organization markets some common products, they also sell proprietary products under distinctive brand identities. This enables each distribution system to capitalize on existing market strengths and business relationships.

During 1998, the Employee Benefits Division experienced:

- significant growth in 401(k) assets under administration,
- increased sales and improved customer retention in group life and health,
- favorable mortality results, and
- license approval for four Health Maintenance Organization (HMO) subsidiaries, for a total of 14 fully operational HMOs.

Overall, the financial results for 1998 have improved with 401(k) revenue premium increasing 21% to $2.4 billion. Assets under administration in 401(k) increased 36% over 1997, to $10.3 billion as the result of the premium growth and strong equity markets in the United States. Equivalent revenue premium income for group life and health increased 43% driven by the small case market, which is a combination of the AH&L addition and good sales from GWL&A group representatives. Fee and other income increased 33% to $661 million due to life and health sales and strong equity markets. Net income increased in 1998 due to favourable mortality and increased variable fee income associated with strong 401(k) asset growth.

The Employee Benefits Division experienced strong sales growth during 1998 as new group medical customers selected GWL&A products, increasing its membership by 143,000 individual members, excluding the AH&L acquisition. Much of the medical growth can be attributed to the introduction of new HMOs in markets with high sales potential, and the Division's ability to offer a choice of managed care products. In addition, the number of 401(k) group customers increased by 372, increasing the number of individual 401(k) lives to 477,000 compared to 430,000 in 1997.

During 1998, the U.S. insurance industry continued a pattern of consolidation. To position itself for the future, the Employee Benefits Division is focused on putting in place the products, strategies and processes that will strengthen its competitive position in the evolving managed care environment.

With a growing demand for more tightly managed care plans, HMO development remains Employee Benefits' most important product development initiative. In 1998, the Division received state approval for HMOs in Indiana, Florida, New Jersey, and Arizona and applied for licenses in North Carolina, Pennsylvania, and Virginia. The Division also entered into an agree-

EMPLOYEE BENEFITS – DIVISIONAL SUMMARY

(in $ millions)

	Case size			
	Small/Medium	Large	Annuities	Total
For the year ended December 31, 1998				
Sales	**$ 512**	**$ 489**	**$ 874**	**$ 1,875**
Revenue Premium Income	**1,955**	**3,055**	**2,380**	**7,390**
For the year ended December 31, 1997				
Sales	$ 281	$ 293	$ 1,001	1,575
Revenue Premium Income	962	2,534	1,969	5,465

ment with another insurance carrier, which will exclusively market the One Health Plan HMO in various states. These types of agreements will augment growth in GWL&A's HMO programs in the future.

The One Health Plan subsidiary organization is also playing a role in network contracting and administration, medical management, member services, and quality assurance for the Division's other managed care products. In addition to day-to-day operation of the HMO, each One Health Plan will administer Preferred Provider Organization (PPO) and Point-of Service (POS) Plan provider networks for the Company, its wholly-owned subsidiary AH&L, and its joint-venture partner, The New England Financial Insurance Company. In addition to economies of scale, this "pooling" of PPO, POS, and HMO membership benefits the Company in negotiating provider reimbursement arrangements, which leads to more competitive pricing.

The Division experienced a 35% increase in total membership, including the AH&L acquisition, from 1.7 million at the end of 1997 to 2.3 million at December 31, 1998. Gatekeeper (i.e., POS and HMO) members grew 34% to 557,000 lives at the end of 1998, with AH&L contributing nearly 62,000 lives. The Company expects this segment of the business to grow as additional HMO licenses are obtained.

The number of new 401(k) case sales, including third-party administration business generated through the Company's marketing and administration arrangement with The New England, decreased 33% to 828 in 1998. This brings the total 401(k) block of business under administration to 6,121 employer groups and more than 475,000 individual participants.

During 1998, the in-force block of 401(k) business performed well, with customer retention of 93%. This, combined with strong equity markets, resulted in a 36% increase in assets under management, to $10.3 billion.

In addition to GWL&A's internally-managed funds, the Company offers externally-managed funds from recognized mutual funds companies such as AIM, Fidelity, Putnam, and American Century. This strategy, supported by participant education efforts, is validated by the fact that 99% of assets contributed in 1998 were allocated to variable funds.

Pension Plan Specialist (PPS) services, which include drafting of plan documents, compliance testing, and completion of annual tax forms, were elected in an additional 650 cases in 1998. This brings the total in-force case count serviced by this in-house unit to over 2,700 from 2,082 in 1997. In addition to offering employers the advantage of one-stop shopping, this program enables the Division and the employer to reduce costs associated with these services.

To promote long-term asset retention, the Division enhanced a number of products and services, including prepackaged "lifestyle" funds (The Profile Series), "Account Credits" for high-balance accounts, a rollover IRA product, more effective enrollment communications, one-on-one retirement planning assistance and personal plan illustrations.

Outlook

In 1999, the Company will continue to enhance managed care programs and services, further HMO development, seek National Committee for Quality Assurance (NCQA) accreditation, refine quality assurance programs and introduce member communications directed at health improvements. The health claims payment system will be enhanced in 1999 to provide medical auto-adjudication capabilities to

reduce administrative expenses and improve claims processing time. The Company will enhance the 401(k) product for large cases by adding additional funds, reviewing and replacing current funds, as well as offering funds outside the annuity contract. The 401(k) product will be added to AH&L's product portfolio later in 1999.

FINANCIAL SERVICES

The Financial Services Division develops, administers, and sells retirement savings and life insurance products and services for individuals and employees of state and local governments, hospitals and non-profit organizations, and public school districts.

Financial Services primarily uses BenefitsCorp, a wholly-owned subsidiary, to distribute pension products and provide communication and enrollment services to employers in the public/non-profit market. Pension products are also distributed through independent marketing agencies.

The Company distributes universal and joint survivor life insurance, as well as individual fixed and variable qualified and non-qualified deferred annuities, through Charles Schwab & Co., Inc. Individual life products are also sold through large banks and other financial institutions. Bank Owned Life Insurance products are marketed through a broker, Clark/Bardes, Inc.

The Company has both participating and non-participating life insurance businesses. The participating policyholders share in the financial results (differences in experience of actual financial results versus the pricing expectations) of the participating business in the form of dividends. The participating products are no longer actively marketed but continued to have premium revenue of $423 million in 1998. Participating dividends for 1998 and 1997 were $153 million and $133 million, respectively. The 1997 premiums are net of a coinsurance agreement between the participating and non-participating life insurance businesses, which was terminated in 1997. The amount of participating insurance coverage in force at the end of 1998 was $20.9 billion compared to $19.7 billion in 1997.

During 1998, the Financial Services Division experienced:

- significant growth in participants and segregated funds assets primarily attributable to Public/Non-Profit (P/NP) business,
- very good persistency in all lines of business, and
- strong sales of Bank Owned Life Insurance (BOLI).

Savings

The Financial Services Division's core savings business is the public/non-profit (P/NP) pension market, providing investment products, administrative and communication services to employees of state and local governments (IRC Section 457 Deferred Compensation

FINANCIAL SERVICES – DIVISIONAL SUMMARY
(Group life, health and disability products in total)
(in $ millions)

	1998	1997	% Change
Savings			
Revenue premium income	**$ 1,338**	$ 1,360	(2) %
Fee and other income	**105**	86	22
Assets under administration			
Individual annuities	**$ 1,334**	$ 1,382	(3) %
Group annuities	**6,331**	6,502	(3)
Segregated funds	**6,607**	4,672	41
Third-party administration	**19,219**	12,193	58
Total	**$ 33,491**	$ 24,749	35 %
Insurance			
Sales (new annualized premium)	**$ 624**	$ 329	90 %
Revenue premium income	**1,243**	967	29 %

Plans), as well as employees of hospitals and public school districts (IRC Sections 403(b) and 401(k) Tax Deferred Annuities). The assets of the P/NP business, including segregated funds, increased 13% during 1998 to $12.1 billion. Much of the growth came from the segregated funds business, which was driven by revenue premium and strong investment returns in the equity markets.

The Financial Services Division's savings business experienced strong growth. The number of new participants in 1998 was 151,300, compared to 129,200 in 1997, bringing the total lives under administration to 674,000. BenefitsCorp, the Company's wholly-owned communication and marketing subsidiary, sold 21 new large employer cases compared to 13 in 1997 and increased the penetration of existing cases by enrolling new employees.

The Division again experienced a very high retention rate in P/NP contract renewals in 1998. Part of this customer loyalty comes from initiatives to provide high-quality service while controlling expenses.

The Division continued to limit sales of guaranteed investment contracts (GICs) and allowed this block of business to contract in response to the highly competitive GIC market. As a result, GIC assets decreased 53% in 1998, to $421 million.

Customer demand for investment diversification continued to be strong during 1998. New contributions to variable business represented 63% of the total 1998 premiums versus 69% in 1997. The Company continues to expand the investment products available through its subsidiary mutual fund company, Maxim Series Fund, Inc., and partnership arrangements with external fund managers. Externally-managed funds offered to participants in 1998 included American Century, Ariel, Fidelity, Founders, INVESCO, Janus, Loomis Sayles, Templeton, T. Rowe Price and Vista. In 1998, the Division introduced Profile portfolios for its P/NP variable annuity products. The Profiles provide the convenience of pre-selected investment mixes based on varying degrees of risk tolerance. This array of funds allows customers to diversify their investments across a wide range of investment products, including fixed income, stock and international equity fund offerings.

Participation in guaranteed segregated funds increased, as many group policyholders prefer the security of government investments and segregated assets. Assets under management for guaranteed segregated funds exceeded $847 million in 1998, compared to $654 million in 1997.

Financial Services uses independent marketing agencies and BenefitsCorp to distribute products in the P/NP markets. Independent marketing agencies add value to product offerings by applying experience and expertise in implementing and managing retirement plans. BenefitsCorp provides an extensive menu of marketing services to more than 2,300 groups, including government entities, hospitals, and other non-profit organizations.

Financial Administrative Services Corporation (FASCorp) is a wholly-owned subsidiary of GWL&A with the sole purpose of providing comprehensive administrative and recordkeeping services for financial institutions and employer-sponsored retirement plans. FASCorp administers records for more than 1,304,000 participants (1,000,000 in 1997).

Sales of individual fixed and variable non-qualified deferred annuities through Charles Schwab & Co., Inc., totaled $304 million in premium in 1998, compared to $331 million in 1997. Virtually all premium was for the variable annuity product, which offers 25 investment options, dollar cost averaging and rebalancing.

Insurance

The Division continued its conservative approach to the manufacture and distribution of traditional life insurance products, while focusing on customer retention and expense management.

Individual life insurance revenue premiums of $1.2 billion in 1998 increased 29% from the $967 million in 1997, due to strong BOLI sales in 1998.

As of year-end 1996, legislation was in place to phase out the tax deductibility of interest on policy loans on corporate-owned life insurance (COLI) products during 1997 and 1998. Since COLI sales were discontinued in 1996, non-participating renewal premiums have decreased to $82 million in 1998 from $337 million in 1997. Although COLI policyholders are

no longer paying premiums, the cash values of the policies are being used to fund expenses and loan interest. As a result of these legislative changes, the Division has shifted its emphasis from COLI to new sales in the BOLI market. This product provides long term benefits for bank employees and was not affected by the 1996 legislative changes. BOLI revenue premiums were $639 million during 1998, compared to $247 million in 1997. The Division continues working closely with existing COLI customers to determine the options available to them and is confident that the effect of the legislative changes will not be material to its operations.

Outlook

During 1999, the Division expects to continue its growth of the third-party administration business through its subsidiary company, FASCorp. Emphasis will also be placed on developing the institutional insurance and annuity markets. Communications were provided to its policyholders in the public/non-profit market through the use of the Internet. Increased emphasis will be placed on improving Internet functionality during the upcoming year to improve this service for the customer.

The Federal Reserve Board reduced the rate on federal funds to 4.75% with a series of 25 basis point cuts in the fall of 1998. The weakness of the global economy resulted in significant flows into the U.S. Treasury market as a "safe haven", causing interest rates to decline to their lowest levels since the 1960s.

In the latter part of the year, increased volatility and significantly reduced liquidity resulted in spreads widening globally in most sectors, irrespective of quality, structure or implicit government guarantee. While historical norms suggest that the spread widening may provide unique investment opportunities, management remains cautious, given the volatility and uncertainty of the market.

In spite of generally declining rates, the Company's overall investment portfolio earned a yield of 7.4% in both 1998 and 1997, with better returns on the mortgage portfolio offsetting the effect of lower rates on new investments.

This period of lower rates may tempt investors to take additional risks in an effort to increase yield. The Company, however, continues its program of acquiring quality assets, guided by conservative investment policies that include carefully defined industry, size, and geographical diversification standards which reduce the Company's exposure to undue concentration of risk. One of the strategies inherent in the Company's program is the identification of various market niches and sectors which offer richer investment value than the market as a whole, while meeting Company investment policies.

The Company also maintains rigorous standards to control interest rate risk and observes strict asset and liability matching guidelines. These guidelines ensure that even under changing market conditions, the Company will meet the cash flow and income requirements of its liabilities. Through dynamic modeling, using state-of-the-art software to analyze the effects of a wide range of possible market changes on investments and policyholder benefits, the Company ensures that its investment portfolio is appropriately structured to fulfill all obligations to its policyholders.

In 1998, funds available for investment and mortgages subject to renewal and rate adjustment totaled $2.9 billion, and were placed as follows:

- 13% in U.S. government and agency bonds,
- 78% in other bonds,
- 6% in mortgage renewals, and
- 3% in policy loans and other short-term investments.

The Company's new bond investments included not only publicly-traded securities, but also well-structured private placements which typically offer higher yields and better covenant protection than public bonds. The Company anticipates investment grade bonds will remain the largest component of its 1999 investment program.

As of December 31, 1998, approximately 91% of the Company's invested assets were cash, bonds, or policy loans. The overall quality of the bond portfolio, the largest single component of the Company's invested assets, continues to be high, with virtually 100% of the portfolio rated investment grade.

ASSET DISTRIBUTION

December 31 (in $ millions)

	1998		1997	
Government bonds	**$ 3,032**	**15 %**	$ 3,357	17 %
Other bonds	**11,238**	**53**	9,932	50
Mortgages	**1,728**	**8**	1,883	10
Stocks & real estate	**195**	**1**	202	1
Sub-total portfolio investments	**16,193**		15,374	
Cash & certificates of deposit	**493**	**2**	319	2
Policy loans	**4,400**	**21**	4,021	20
Total invested assets	**$ 21,086**	**100 %**	$ 19,714	100 %

BOND PORTFOLIO QUALITY

(excludes $451 million short-term investments, $580 million in 1997)
December 31 (in $ millions)

	1998		1997	
Estimated Rating				
AAA	$ 6,296	45 %	$ 5,876	46 %
AA	1,356	10	1,181	9
A	3,267	24	2,980	24
BBB	2,852	21	2,551	20
BB or lower	48	0	121	1
Total	$ 13,819	100 %	$ 12,709	100 %

Approximately 45% of the bond portfolio is composed of structured assets. This asset category includes both asset-backed and mortgage-backed securities. The Company's strategy, related to these assets, is to focus on those with low volatility and minimal credit risk. The Company does not invest in collateralized mortgage obligations with higher risk profiles, and has no plans to invest in such instruments in the future.

The aggregate amount of non-performing loans at December 31, 1998 was $25 million or 0.2% of portfolio investments, compared with $53 million or 0.3% at the end of 1997. These low levels reflect the Company's proactive management of potentially problematic accounts. Total allowances for credit losses were $141 million at year-end 1998, compared to $132 million at the end of 1997.

The U.S. equity portfolio consists primarily of the Denver home office, minimal other real estate, seed money in some of the Company's mutual funds and a small number of private equities. The Company anticipates a limited participation in real estate and the equity markets during 1999, and continues to stress variable funds for those policyholders wanting to invest in equities.

Liquidity

The liquidity needs of the United States Operations of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 70% of policy liabilities are non-cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

At December 31, 1998, United States Operations had repurchase agreements with third-party broker-dealers of $374 million, compared with $606 million at December 31, 1997, and a commercial paper program with an outstanding balance of $61 million, compared with $77 million at December 31, 1997.

Additional liquidity is available through established lines of credit and through the demonstrated ability of the Company to access capital markets.

LIQUID ASSETS – UNITED STATES OPERATIONS

December 31 (in $ millions)

	1998		1997	
	Balance Sheet Value	**Market Value**	**Balance Sheet Value**	**Market Value**
Cash & certificates of deposit	**$ 493**	**$ 493**	$ 319	$ 319
Highly marketable securities				
- Government bonds	**3,032**	**3,127**	3,357	3,408
- Corporate bonds	**5,339**	**5,440**	5,584	5,703
- Common/Preferred shares	**70**	**82**	57	65
Total	**$ 8,934**	**$ 9,142**	$ 9,317	$ 9,495

LIABILITY CHARACTERISTICS – UNITED STATES OPERATIONS

December 31 (in $ millions)

	1998		1997
	Book Value	**Liquidity Need**	**Book Value**
Policies non-cashable prior to maturity	**$ 6,061**	VERY LOW	$ 5,657
Policies subject to market value adjustment	**6,749**	LOW	6,583
Policies with surcharges	**3,815**	MODERATE	2,911
Policies with no surcharges	**2,048**	MODERATE	1,914
Total	**$ 18,673**		$ 17,065

[illegible]AGEMENT AND CONTROL PRACTICES

The Company acquires and manages portfolios of assets to produce risk-adjusted returns in support of policyholder obligations and corporate profitability.

The Executive Committee and the Investment and Credit Committee of the Board of Directors annually approve Investment Procedures and Policies. A comprehensive report on compliance is presented to the Investment and Credit Committee quarterly, and the Internal Audit department conducts an independent review of compliance with investment policies on a periodic basis.

The significant risks the Investment Division manages, monitors, and controls are outlined below:

Interest Rate Risk

The Company manages interest rate risk by investing in assets that are suitable for the products it sells. For products with fixed and highly predictable benefit payments such as certificate annuities and payout annuities the Company invests in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved, as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities. For products with uncertain timing of benefit payments such as portfolio annuities and life insurance, the Company invests in fixed income assets with expected cash flows that are earlier than the expected timing of the benefit payments. This enables the Company to react to changing interest rates sooner as these assets mature for reinvestment.

Credit Risk

It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry, company, and type of business. Guidelines specify minimum and maximum limits for each class.

Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review. Generally, the most conservative rating is adopted. These portfolios are monitored continuously and reported quarterly.

Off-balance sheet credit risk is evaluated quarterly on a current exposure method and is combined with on balance sheet exposure to measure risk with any one creditor.

Liquidity Risk

The Company maintains sufficient operating liquidity to meet daily cash requirements. In the event of an unexpected need for cash, the Company has the ability to draw on its established line of credit.

Foreign Exchange Risk

Investments are normally made in the same currency as the liability. Any foreign currency assets acquired to back liabilities are converted using foreign exchange contracts.

SEGREGATED FUNDS

The 29% increase in the S&P 500 Index was among many reasons that investors in the U.S. continued to increase their participation in mutual funds during 1998. In response to this increased consumer desire, the Company continues to increase its offerings in the variable fund arena and to offer a broad selection of mutual and segregated funds. During 1998, such funds administered by the Company grew to $15.4 billion, compared with $11.2 billion at year-end 1997. Included in the December 31, 1998 balance is $8.8 billion of assets in Maxim and Orchard Funds, with 30 different portfolio offerings.

The Maxim and Orchard portfolios are composed of two money market funds, six managed fixed income funds, eight indexed equity funds, and 14 managed equity funds. The goal of the index funds is to provide returns, which approximate the returns of the comparable indexes. The remaining funds are targeted to meet or beat the returns of predetermined comparable indexes or other targets.

SEGREGATED FUND ASSETS

December 31 (in $ millions)

	1998	1997	1996	1995	1994
Maxim & Orchard Funds					
Equity funds	**$ 6,608**	$ 4,702	$ 2,759	$ 1,764	$ 1,102
Fixed-income funds	**1,206**	920	691	578	426
Money market fund	**953**	652	543	377	261
Total	**$ 8,767**	$ 6,274	$ 3,993	$ 2,719	$ 1,789
Other internally-managed funds	**900**	693	583	491	380
Externally-managed funds	**5,768**	4,232	2,867	2,100	1,270
	$ 15,435	$ 11,199	$ 7,443	$ 5,310	$ 3,439
Year over year growth	**38%**	50%	40%	54%	–

MANAGEMENT'S RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The financial statements necessarily include amounts that are based on management's best estimate due to dependency on subsequent events. These estimates are based on careful judgements and have been properly reflected in the financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to provide reasonable assurance that the financial information produced is relevant and reliable.

The consolidated financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company. The function of the Audit Committee is to:

- Review the quarterly and annual financial statements and recommend them for approval to the Board of Directors.
- Review the systems of internal control and security.
- Recommend the appointment of the external auditors and their fee arrangements to the Board of Directors.
- Review other audit, accounting, financial and security matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of The Great-West Life Assurance Company, pursuant to Section 165(2)(i) of the Insurance Companies Act (Canada), appoints the Actuary who is:

- Responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives.
- Required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.
- Required each year to analyze the financial condition of the Company and prepare a report for the Board of Directors. The analysis tests the capital adequacy of the Company until December 31, 2002 under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's appointed external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders is presented following the financial statements. Their opinion is based upon an examination conducted in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements are free of material misstatement and present fairly the financial position and results of operations of the Company in accordance with generally accepted accounting principles.

O.T. Dackow

Orest T. Dackow
President and Chief Executive Officer

January 28, 1999

William W. Lovatt
Vice-President Finance, Canada

Mitchell T.G. Graye
Vice-President Finance, United States

SUMMARY OF CONSOLIDATED OPERATIONS

For the years ended December 31

(in millions of dollars except earnings per common share)

	1998	1997
Income		
Premium income	$ 9,237	$ 4,587
Net investment income	3,516	2,185
Fee and other income	1,003	703
	$ 13,756	$ 7,475
Benefits and Expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	10,680	5,723
Commissions	538	286
Operating expenses	1,446	862
Amortization of goodwill	57	8
Premium taxes	93	71
Provision for integration costs	–	250
Net operating income before income taxes	942	275
Income taxes – current	216	105
– future	145	(78)
Net income before minority and other interests	$ 581	$ 248
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries		
Participating policyholders	66	(18)
Preferred shareholder dividends	35	15
Minority shareholders' interest	7	1
	108	(2)
Net income	$ 473	$ 250
Earnings per common share *(note 8)*	$ 1.17	$ 0.68

SUMMARY OF NET INCOME

	1998	1997
Preferred shareholder dividends	$ 36	$ 31
Net income – common shareholders	437	219
Net income	$ 473	$ 250

CONSOLIDATED BALANCE SHEET

December 31

(in millions of dollars)

ASSETS	**1998**	1997
Bonds *(note 2)*	**$ 30,834**	$ 28,306
Mortgage loans *(note 2)*	**9,857**	10,894
Stocks *(note 2)*	**792**	790
Real estate *(note 2)*	**1,072**	1,440
Loans to policyholders	**5,604**	5,153
Cash and certificates of deposit	**759**	900
Funds withheld by ceding insurers	**2,174**	939
Premiums in course of collection	**378**	409
Interest due and accrued	**678**	645
Future income taxes *(note 11)*	**210**	312
Goodwill	**1,659**	1,721
Other assets	**708**	535
Total assets	**$ 54,725**	$ 52,044

Approved by the Board

J.W. Burns

Director

O.T. Dackow

Director

LIABILITIES	1998	1997
Policy liabilities		
Actuarial liabilities *(note 4)*	**$ 41,128**	$ 38,578
Provision for claims	**800**	676
Provision for policyholders' dividends	**329**	305
Provision for experience rating refunds	**506**	360
Policyholders' funds	**1,927**	1,973
	44,690	41,892
Commercial paper and other loans *(note 5)*	**601**	811
Current income taxes	**145**	249
Other liabilities	**1,862**	1,930
Repurchase agreements	**374**	708
Net deferred gains on portfolio investments sold *(note 2)*	**1,422**	1,281
	49,094	46,871
Minority and other interests *(note 6)*	**2,083**	2,011

CAPITAL STOCK AND SURPLUS		
Capital stock *(note 7)*	**2,039**	2,039
Surplus	**1,250**	984
Provision for unrealized gain on translation of net investment in foreign operations	**259**	139
	3,548	3,162
Liabilities, capital stock and surplus	**$ 54,725**	$ 52,044

CONSOLIDATED STATEMENT OF SURPLUS

For the years ended December 31

(in millions of dollars)

	1998	1997
Balance, beginning of year	**$ 984**	$ 894
Net income	**473**	250
Share issue expense	–	(2)
Common share cancellation excess	**(7)**	(2)
Minority interest – additional capital investment in subsidiary	–	(3)
Dividends to shareholders		
Preferred shareholders	**(36)**	(31)
Common shareholders	**(164)**	(122)
Balance, end of year	**$ 1,250**	$ 984

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31

(in millions of dollars)

	1998	1997
Operations		
Net income	$ 473	$ 250
Non-cash charges:		
Increase (decrease) in policy liabilities	1,684	73
Decrease (increase) in funds withheld by ceding insurers	(1,235)	(383)
Future income taxes	145	(78)
Amortization of goodwill	57	8
Other	(410)	148
	714	18
Financing Activities		
Issue of common shares	1	400
Commercial paper and other loans	(210)	(311)
Redemption of preferred shares of subsidiary company	–	(312)
Purchased and cancelled common shares	(8)	(3)
Share issue expenses	–	(2)
Dividends paid	(229)	(159)
	(446)	(387)
Investment Activities		
Bond sales and maturities	16,444	12,419
Mortgage loan repayments	1,449	706
Stock sales	89	1,578
Real estate sales	395	68
Increase (decrease) in repurchase agreements	(369)	(142)
Policy loan repayments	570	287
Investment in subsidiary	(123)	(1,829)
Investment in bonds	(17,754)	(12,744)
Investment in mortgage loans	(262)	(282)
Investment in stocks	(70)	(330)
Investment in real estate	(41)	(38)
Policy loan advances	(737)	(465)
	(409)	(772)
Decrease in cash and certificates of deposit	(141)	(1,141)
Cash and certificates of deposit, beginning of year	900	239
London Insurance Group – cash and certificates of deposit at date of acquisition	–	1,802
Cash and certificates of deposit, end of year	$ 759	$ 900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

($ amounts in millions of dollars unless otherwise noted)

1. BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Great-West Lifeco Inc. have been prepared in accordance with generally accepted accounting principles and include the accounts of its subsidiary company, The Great-West Life Assurance Company (Great-West) and its subsidiary companies. The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of $7 million ($13 million in 1997). The carrying value is adjusted towards market value at a rate of 15% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 15% per annum on a declining balance basis. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market are determined by management.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $28 million ($37 million in 1997). The carrying value is adjusted towards market value at a rate of 10% per annum. Net realized gains and losses are included in Net Deferred Gains on Portfolio Investments Sold and are deferred and amortized to income at 10% per annum on a declining balance basis. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Derivative Financial Instruments

Great-West uses derivative products as risk management instruments to hedge or manage asset and liability positions within guidelines which prohibit their use for speculative trading purposes.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position.

(c) Foreign Currency Translation

Great-West follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Certain cross-currency swap contracts are a partial hedge of Great-West's total net investment in its United States operation. The provision for unrealized gain of $259 million ($139 million in 1997) on foreign currency translation of Great-West's net investment in its foreign operations is net of the after tax effect of any offsetting gains and losses on instruments designated as hedges, and is recorded separately on the Consolidated Balance Sheet.

Great-West has entered into certain daily average rate forward exchange contracts to manage volatility associated with the translation of its United States operations into Canadian dollars. Net realized foreign exchange gains and losses are included in investment income.

(d) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance, are fully secured by the cash surrender values of the policies and have effective interest rates ranging from 5% to 8% (1997– 5% to 8%).

(e) Funds Withheld by Ceding Insurers

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain the assets on the underlying insurance policy.

(f) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of Great-West. Goodwill is amortized on a straight-line basis over its useful life but not exceeding periods of 30 years. Great-West evaluates the carrying amount of goodwill by reviewing returns and projections of future cash flows of the related businesses. Goodwill is written down when impaired and the amortization periods are revised if it is estimated that the remaining period of benefit has changed.

(g) Income Taxes

Income taxes are accounted for in accordance with the new CICA Handbook Section 3465. Current income taxes are based on taxable income and future income taxes are based on taxable timing differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted at the balance sheet date.

(h) Repurchase Agreements

Great-West enters into repurchase agreements with third-party broker-dealers in which Great-West sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(i) Pension Plans and Other Post Retirement Benefits

Great-West maintains contributory and non-contributory defined benefit pension plans for certain of its employees and agents. The plans provide pensions based on length of service and final average earnings. The current cost of pension benefits is charged to earnings. Adjustments arising from plan amendments or experience gains or losses are amortized over the expected average remaining service life of the employee/agent group.

Great-West also provides post retirement health and life insurance benefits to eligible employees, agents and their dependents, the cost of which is recognized as incurred unless previously accrued.

(j) Geographic Segmentation

Great-West has significant operations in Canada and the United States. Operations in other countries are reported with the Canadian operations.

(k) Comparative Figures

Certain of the 1997 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year. 1997 comparative figures for the Summary of Operations and related notes to the financial statements include the portion of 1997 results for London Insurance Group for the period November 14 to December 31, 1997.

2. PORTFOLIO INVESTMENTS

(a) Carrying values and estimated market values of portfolio investments are as follows:

		1998			
		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	$ 7,643	$ 3,032	$ 10,675	$ 11,170
	– corporate	8,921	11,238	20,159	21,035
		16,564	14,270	30,834	32,205
Mortgage loans	– residential	5,067	277	5,344	5,442
	– retail and shopping centres	1,042	535	1,577	1,669
	– office buildings	928	505	1,433	1,522
	– industrial	922	208	1,130	1,189
	– other	170	203	373	456
		8,129	1,728	9,857	10,278
Stocks	– public	415	29	444	475
	– private	304	44	348	354
		719	73	792	829
Real estate		950	122	1,072	1,174
		$ 26,362	$ 16,193	$ 42,555	$ 44,486

		1997			
		Balance Sheet Value			Market Value
		Canada	United States	Total	Total
Bonds	– government	$ 6,655	$ 3,357	$ 10,012	$ 10,250
	– corporate	8,362	9,932	18,294	19,081
		15,017	13,289	28,306	29,331
Mortgage loans	– residential	5,613	313	5,926	5,962
	– retail and shopping centres	1,215	568	1,783	1,945
	– office buildings	1,035	537	1,572	1,643
	– industrial	990	250	1,240	1,296
	– other	158	215	373	443
		9,011	1,883	10,894	11,289
Stocks	– public	457	–	457	465
	– private	274	59	333	332
		731	59	790	797
Real estate		1,297	143	1,440	1,542
		$ 26,056	$ 15,374	$ 41,430	$ 42,959

(b) The significant terms and conditions and interest rate ranges of applicable fixed-term portfolio investments gross of provisions are as follows:

1998

	Carrying Value – Term to Maturity: 1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Short term bonds	$ 903	$ –	$ –	$ 903	$ 911	3.4%-6.1%
Bonds	1,820	8,233	19,900	29,953	31,414	3.5%-13.8%
Mortgage loans	1,715	5,440	2,882	10,037	9,973	4.0%-14.5%
	$ 4,438	$ 13,673	$ 22,782	$ 40,893	$ 42,298	
Geographic						
Canada	$ 3,079	$ 8,945	$ 12,729	$ 24,753	$ 25,868	3.5%-14.5%
United States	1,359	4,728	10,053	16,140	16,430	3.4%-12.9%
	$ 4,438	$ 13,673	$ 22,782	$ 40,893	$ 42,298	

1997

	Carrying Value – Term to Maturity: 1 Year or Less	1-5 Years	Over 5 Years	Total	Principal Amount	Effective Interest Rate Ranges
Short term bonds	$ 1,251	$ –	$ –	$ 1,251	$ 1,256	3.8%-6.5%
Bonds	2,751	9,116	15,208	27,075	28,500	3.5%-16.4%
Mortgage loans	2,044	5,921	3,091	11,056	10,948	3.3%-15.5%
	$ 6,046	$ 15,037	$ 18,299	$ 39,382	$ 40,704	
Geographic						
Canada	$ 3,409	$ 8,507	$ 12,162	$ 24,078	$ 25,138	3.3%-16.4%
United States	2,637	6,530	6,137	15,304	15,566	4.0%-12.9%
	$ 6,046	$ 15,037	$ 18,299	$ 39,382	$ 40,704	

(c) Included in portfolio investments are the following:

(i) Non-performing loans:

	1998	1997
Asset Class		
Bonds	$ 4	$ 9
Mortgage loans	66	89
Foreclosed real estate	37	65
	$ 107	$ 163
Geographic		
Canada	$ 82	$ 110
United States	25	53
	$ 107	$ 163

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

(1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or

(2) Great-West no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

2. PORTFOLIO INVESTMENTS *(cont'd)*

(3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

(ii) Allowance for credit losses:

	1998	1997
Asset Class		
Bonds	**$ 22**	$ 20
Mortgage loans	**180**	162
Foreclosed real estate	**1**	1
	$ 203	$ 183
Geographic		
Canada	**$ 62**	$ 51
United States	**141**	132
	$ 203	$ 183

(iii) Changes in the allowance for credit losses are as follows:

	1998	1997
Balance – beginning of year	**$ 183**	$ 166
Provision for credit losses – normal	**17**	26
– cyclical	**(6)**	(8)
Recoveries of prior write-offs	**7**	5
Write-offs – modified/restructured loans	**(1)**	(5)
Write-offs – other loans	**(6)**	(25)
London Insurance Group at date of acquisition	**–**	19
Other – including foreign exchange rate changes	**9**	5
Balance – end of year	**$ 203**	$ 183

The allowance for credit losses includes general provisions, established at a level that together with the provision for future credit losses included in actuarial liabilities, reflects Great-West's estimate of potential future credit losses.

(d) Investments in real estate include an asset value allowance which provides for deterioration of market values associated with real estate held for investment.

	1998	1997
Canada	**$ 38**	$ 38
United States	**–**	–
	$ 38	$ 38

(e) Also included in portfolio investments are modified/restructured loans that are performing in accordance with their current terms.

	1998	1997
Canada	**$ 138**	$ 137
United States	**271**	307
	$ 409	$ 444

(f) Net investment income of $3,516 million ($2,185 million in 1997) includes amortization of net deferred realized gains (losses) on portfolio investments and unrealized gains (losses) on stocks and real estate as follows:

	1998		
	Canada	**United States**	**Total**
Bonds	**$ 101**	**$ 21**	**$ 122**
Mortgage loans	**14**	**2**	**16**
Stocks	**84**	**4**	**88**
Real estate	**1**	**–**	**1**
	$ 200	**$ 27**	**$ 227**

	1997		
	Canada	**United States**	**Total**
Bonds	$ 44	$ 89	$ 133
Mortgage loans	2	8	10
Stocks	45	42	87
Real estate	(4)	(82)	(86)
	$ 87	$ 57	$ 144

(g) The balance of net deferred gains (losses) on portfolio investments sold is comprised of the following:

	1998		
	Canada	**United States**	**Total**
Bonds	**$ 734**	**$ 123**	**$ 857**
Mortgage loans	**63**	**1**	**64**
Stocks	**477**	**13**	**490**
Real estate	**11**	**–**	**11**
	$ 1,285	**$ 137**	**$ 1,422**

	1997		
	Canada	**United States**	**Total**
Bonds	$ 652	$ 65	$ 717
Mortgage loans	4	1	5
Stocks	539	4	543
Real estate	16	–	16
	$ 1,211	$ 70	$ 1,281

3. PLEDGING OF ASSETS

The amount of assets which have a security interest by way of pledging are outlined below by major pledging activity:

	1998		
	Canada	**United States**	**Total**
Derivative transactions	**$ –**	**$ 1**	**$ 1**
In respect of repurchase agreements	**–**	**–**	**–**
In respect of real estate	**112**	**–**	**112**
In respect of reinsurance agreements	**70**	**–**	**70**
	$ 182	**$ 1**	**$ 183**

	1997		
	Canada	**United States**	**Total**
Derivative transactions	$ 1	$ 1	$ 2
In respect of repurchase agreements	97	–	97
In respect of real estate	119	–	119
In respect of reinsurance agreements	445	–	445
	$ 662	$ 1	$ 663

4. ACTUARIAL LIABILITIES

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

1998

	Participating Policyholders		Non-Participating Policyholders		
	Canada	**United States**	**Canada**	**United States**	**Total**
Individual – Life	$ 8,127	$ 6,210	$ 609	$ 3,201	$ 18,147
– Annuity	80	6	5,023	1,327	6,436
– Health	xxx	xxx	162	16	178
Group – Life	xxx	xxx	485	282	767
– Annuity	38	9	2,434	6,625	9,106
– Health	xxx	xxx	2,018	254	2,272
Reinsurance	xxx	xxx	4,212	–	4,212
Property & casualty	xxx	xxx	10	–	10
Total	$ 8,245	$ 6,225	$ 14,953	$ 11,705	$ 41,128

1997

	Participating Policyholders		Non-Participating Policyholders		
	Canada	**United States**	**Canada**	**United States**	**Total**
Individual – Life	$ 7,554	$ 5,431	$ 553	$ 2,471	$ 16,009
– Annuity	89	6	5,815	1,376	7,286
– Health	xxx	xxx	155	17	172
Group – Life	xxx	xxx	466	186	652
– Annuity	40	9	2,699	6,830	9,578
– Health	xxx	xxx	1,884	177	2,061
Reinsurance	xxx	xxx	2,814	–	2,814
Property & casualty	xxx	xxx	6	–	6
Total	$ 7,683	$ 5,446	$ 14,392	$ 11,057	$ 38,578

(ii) The composition of the assets supporting liabilities and surplus is as follows:

1998

	Bonds	**Mortgage Loans**	**Stocks**	**Real Estate**	**Other**	**Total**
Balance Sheet Value						
Participating						
– Life	$ 6,626	$ 2,348	$ 59	$ 2	$ 5,302	$ 14,337
– Annuity	83	34	2	–	14	133
Non–Participating						
– Life	2,929	310	55	3	1,280	4,577
– Annuity	9,854	5,057	186	22	290	15,409
– Health	1,750	605	33	–	62	2,450
Reinsurance	2,195	–	53	–	1,964	4,212
Property & casualty	10	–	–	–	–	10
Other	5,756	1,345	927	643	1,378	10,049
Capital and surplus	1,631	158	(523)	402	1,880	3,548
Total Balance Sheet Value	$ 30,834	$ 9,857	$ 792	$ 1,072	$ 12,170	$ 54,725

	1998 cont'd					
	Bonds	**Mortgage Loans**	**Stocks**	**Real Estate**	**Other**	**Total**
Geographic						
Canada	**$ 16,564**	**$ 8,129**	**$ 719**	**$ 950**	**$ 6,116**	**$ 32,478**
United States	**14,270**	**1,728**	**73**	**122**	**6,054**	**22,247**
	$ 30,834	**$ 9,857**	**$ 792**	**$ 1,072**	**$ 12,170**	**$ 54,725**
Fair Value	**$ 32,205**	**$ 10,278**	**$ 829**	**$ 1,174**	**$ 12,170**	**$ 56,656**
Geographic						
Canada	**$ 17,480**	**$ 8,502**	**$ 747**	**$ 1,045**	**$ 6,116**	**$ 33,890**
United States	**14,725**	**1,776**	**82**	**129**	**6,054**	**22,766**
	$ 32,205	**$ 10,278**	**$ 829**	**$ 1,174**	**$ 12,170**	**$ 56,656**

	1997					
	Bonds	**Mortgage Loans**	**Stocks**	**Real Estate**	**Other**	**Total**
Balance Sheet Value						
Participating						
– Life	$ 6,556	$ 2,756	$ 68	$ 2	$ 3,603	$ 12,985
– Annuity	90	44	2	–	8	144
Non-Participating						
– Life	2,120	421	59	7	1,069	3,676
– Annuity	10,222	5,955	195	24	324	16,720
– Health	1,639	601	23	–	(30)	2,233
Reinsurance	1,756	–	35	–	1,023	2,814
Property & casualty	6	–	–	–	–	6
Other	4,000	907	1,063	890	3,444	10,304
Capital and surplus	1,917	210	(655)	517	1,173	3,162
Total Balance Sheet Value	$ 28,306	$ 10,894	$ 790	$ 1,440	$ 10,614	$ 52,044
Geographic						
Canada	$ 15,017	$ 9,011	$ 731	$ 1,297	$ 5,325	$ 31,381
United States	13,289	1,883	59	143	5,289	20,663
	$ 28,306	$ 10,894	$ 790	$ 1,440	$ 10,614	$ 52,044
Fair Value	$ 29,331	$ 11,289	$ 797	$ 1,542	$ 10,614	$ 53,573
Geographic						
Canada	$ 15,700	$ 9,360	$ 732	$ 1,396	$ 5,325	$ 32,513
United States	13,631	1,929	65	146	5,289	21,060
	$ 29,331	$ 11,289	$ 797	$ 1,542	$ 10,614	$ 53,573

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus when realized.

The carrying value of assets backing actuarial liabilities plus the portion of deferred gains associated with actuarial liabilities is $41,773 million. The fair value of these assets is $43,104 million.

(b) Nature of Actuarial Liabilities

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, annuity reserves and London Life's group life and health claim reserves have been established using cash flow valuation techniques. All other reserves have been determined using the policy premium method.

4. ACTUARIAL LIABILITIES *(cont'd)*

(c) Changes in Actuarial Liabilities

The change in actuarial liabilities is as follows:

	Participating Policyholders		Non-Participating Policyholders		Total	
	1998	1997	**1998**	1997	**1998**	1997
Balance – beginning of year	**$ 13,129**	$ 5,550	**$ 25,449**	$ 16,301	**$ 38,578**	$ 21,851
Reclassification	–	–	**(6)**	–	**(6)**	–
Normal change						
– new business	**(25)**	(3)	**2,146**	1,174	**2,121**	1,171
– in force	**969**	806	**(2,423)**	(1,887)	**(1,454)**	(1,081)
Foreign exchange rate changes	**397**	228	**1,042**	464	**1,439**	692
Acquisitions	–	6,548	**450**	9,397	**450**	15,945
Balance – end of year	**$ 14,470**	$ 13,129	**$ 26,658**	$ 25,449	**$ 41,128**	$ 38,578

(d) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that the reserves are adequate to cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually, by country, for Canada and the United States. The results of this study are analyzed and used to update Great-West's experience valuation mortality table for life insurance. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality rate. Although mortality improvements have been observed for many years, no improvements have been assumed for life insurance valuation.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants.

Morbidity – Great-West uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation.

Investment returns – The assets which correspond to the different liability categories are segmented. From each segment, current returns together with reinvestment assumptions are used to derive interest rates to value future events. These interest rates are reduced to provide for projected asset default losses and reinvestment risk. For the cash flow valuation technique, actual asset and liability future cash flows are used in determining the policy liability amounts.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future cost for the liability type being valued. Expense improvements are not projected. An inflation assumption consistent with the investment return is incorporated in the estimate of future cost.

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where Great-West has no experience with specific types of policies or its exposure is limited. Great-West has reflected the emerging trend of lower lapsation on lapse supported benefits in its reserves.

Policyholder dividends – Policyholder dividends are included in future policy benefits at the current scale of policyholder dividends. The Actuary has assumed that policyholder dividends will be changed from the current scale to reflect any differing operating experience of the participating account in future years.

(e) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining investment yield in order to incorporate reinvestment risk in the actuarial valuation.

(ii) Credit risk

Credit risk is managed through an emphasis of quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on currently held assets. The net effective yield rate reduction averaged .18% in Canada and .17% in the United States.

The following outlines the provision for future credit losses on the assets backing actuarial liabilities included in actuarial liabilities which are in addition to the allowance for asset losses included with assets:

	Participating Policyholders		Non-Participating Policyholders		
	Canada	**United States**	**Canada**	**United States**	**Total**
December 31, 1998	**$ 156**	**$ 13**	**$ 94**	**$ 62**	**$ 325**
December 31, 1997	$ 139	$ 16	$ 101	$ 68	$ 324

(iii) Reinsurance risk

Large amount claim risk for life and health insurance and property and casualty insurance is controlled by having reinsurance in place for claims over specified maximum benefit amounts (which vary by line of business) and by having consolidated catastrophic accident coverage in place covering up to $200 million of claims from a single event.

Reinsurance contracts do not relieve Great-West from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to Great-West. Great-West evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	Participating Policyholders		Non-Participating Policyholders		
	Canada	**United States**	**Canada**	**United States**	**Total**
December 31, 1998	**$ 7**	**$ 26**	**$ 308**	**$ 182**	**$ 523**
December 31, 1997	$ 5	$ 19	$ 284	$ 117	$ 425

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose Great-West to the risk of foreign exchange losses not offset by liability decreases.

4. ACTUARIAL LIABILITIES *(cont'd)*

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow Great-West to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 60% of policy liabilities are non–cashable prior to maturity, or subject to market value adjustments or withdrawal penalties.

(f) Sensitivity of Actuarial Assumptions

The actuarial assumption most susceptible to change in the short term is future investment returns. Based on the projected cash flows of Great-West as of December 31, 1998, the approximate after tax impact of an immediate 1% increase in the general level of interest rates applied to actuarial liabilities and associated assets would be to increase the fair value of surplus by $14 million. The impact of an immediate 1% decrease would be to decrease the fair value of surplus by $57 million.

COMMERCIAL PAPER AND OTHER LOANS

Commercial paper and other loans consist of the following:

	1998			
	Balance Sheet Value			Fair Value
	Canada	United States	Total	Total
Short Term				
Commercial paper and other short term borrowings with interest rates from 4.8% to 5.9%	$ 162	$ 61	$ 223	$ 223
Revolving credit in respect of reinsurance business with interest rates from 4.1% to 8.0% maturing within one year	82	–	82	82
Total short term	244	61	305	305
Long Term				
Operating:				
First mortgages secured by real estate and limited recourse mortgages at interest rates from 6.4% to 11.4% maturing at various dates to 2012	145	–	145	156
Other notes payable at interest rates from 4.3% to 9.0%	40	–	40	42
Sub total	185	–	185	198
Capital:				
9.375% Senior debentures due January 8, 2002 unsecured	100	–	100	111
6.875% Senior notes due September 15, 2005, unsecured (U.S.$7)	11	–	11	11
Sub total	111	–	111	122
Total long term	296	–	296	320
Total	$ 540	$ 61	$ 601	$ 625
Interest expense on long term loans	$ 27	$ –	$ 27	

	1997			
	Balance Sheet Value			Fair Value Total
	Canada	United States	Total	
Short Term				
Commercial paper and other short term borrowings with interest rates from 3.8% to 6.1%	$ 221	$ 77	$ 298	$ 298
Revolving credit in respect of reinsurance business with interest rates from 5.8% to 7.8% maturing within one year	76	–	76	76
Total short term	297	77	374	374
Long Term				
Operating:				
First mortgages secured by real estate and limited recourse mortgages at interest rates from 5.1% to 11.6% maturing at various dates to 2012	285	–	285	307
Other notes payable at interest rates from 4.3% to 9.0%	41	–	41	44
Subtotal	326	–	326	351
Capital:				
9.375% Senior debentures due January 8, 2002 unsecured	100	–	100	114
6.875% Senior notes due September 15, 2005, unsecured (U.S.$7)	11	–	11	11
Sub total	111	–	111	125
Total long term	437	–	437	476
Total	$ 734	$ 77	$ 811	$ 850
Interest expense on long term loans	$ 5	$ –	$ 5	

Principal Repayments of Long Term Loans

	Operating	Capital	Total
1999	**$ 2**	**$ –**	**$ 2**
2000	**7**	**–**	**7**
2001	**23**	**–**	**23**
2002	**43**	**100**	**143**
2003	**37**	**–**	**37**
2004 and thereafter	**73**	**11**	**84**
	$ 185	**$ 111**	**$ 296**

6. MINORITY AND OTHER INTERESTS

The equity investment of Great-West Lifeco Inc. in Great-West was 99.6% at December 31, 1998 (99.5 % at December 31, 1997). The minority and other interests of Great-West and its subsidiaries are:

	1998	1997
Participating policyholders' share of undistributed surplus	**$ 1,341**	$ 1,264
Preferred shareholders	**700**	700
Minority interests in capital stock and surplus	**42**	47
	$ 2,083	$ 2,011

7. CAPITAL STOCK

	1998		1997	
	Number	**Stated Value (thousands)**	**Number**	**Stated Value (thousands)**
First Preferred Shares:				
Authorized – Unlimited				
Issued and outstanding:				
Series A, 7.50% Non-Cumulative First Preferred Shares	**8,000,000**	**$ 200,000**	8,000,000	$ 200,000
Series B, 7.45% Non-Cumulative First Preferred Shares	**4,000,000**	**100,000**	4,000,000	100,000
Series C, 7.75% Non-Cumulative First Preferred Shares	**4,000,000**	**100,000**	4,000,000	100,000
Series 1, 5.00% Non-Cumulative Class A Preferred Shares	**4,772,468**	**119,312**	4,772,468	119,312
Balance, end of year	**20,772,468**	**$ 519,312**	20,772,468	$ 519,312
Common Shares:				
Authorized – Unlimited				
Issued and outstanding:				
Balance, beginning of year	**186,644,847**	**$ 1,519,370**	157,446,050	$ 571,440
Exchanged for shares of Great-West	**47,289**	**–**	5,540	55
Purchased and cancelled under Normal Course Issuer Bid	**(374,500)**	**(1,425)**	(101,900)	(392)
Issued under Stock Option Plan	**162,776**	**1,413**	8,000	136
Issued on subdivision of shares	**186,676,929**	**–**	–	–
Issued during the year	**673**	**18**	12,158,055	400,000
Issued on acquisition of London Insurance Group	**–**	**–**	17,129,102	548,131
Balance, end of year	**373,158,014**	**$ 1,519,376**	186,644,847	$ 1,519,370
Total Capital Stock		**$ 2,038,688**		$ 2,038,682

The Series A, 7.50% Non-Cumulative First Preferred Shares are redeemable or convertible to common shares of the Company at the option of the Company on or after April 1, 1999 or convertible to common shares of the Company at the option of the holder on or after September 30, 1999.

The Series B, 7.45% Non-Cumulative First Preferred Shares are redeemable or convertible to common shares of the Company at the option of the Company on or after December 31, 2002 or convertible to common shares of the Company at the option of the holder on or after June 30, 2003.

The Series C, 7.75% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2002 and are convertible to common shares of the Company at the option of the Company on or after September 30, 2004. The shares are convertible to common shares of the Company at the option of the holder on or after March 31, 2005.

The Series 1, 5.00% Non-Cumulative Class A Preferred Shares are redeemable or convertible to common shares of the Company at the option of the Company on or after October 31, 2004, or convertible to common shares of the Company at the option of the holder on or after January 31, 2005.

During 1998, 374,500 (203,800 in 1997) common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid for a total expenditure of $8 million ($3 million in 1997) or $22.71 ($13.20 in 1997) per share.

A total of 12,000,000 common shares have been reserved for issuance pursuant to the Company's Stock Option Plan. At December 31, 1998, options to purchase up to an aggregate of 10,827,024 (8,624,000 at December 31, 1997) common shares at various prices from $8.4780375 to $22.277955 per share were outstanding. The options are exercisable up to ten years after the date of the grant. During the year, 162,776 shares were issued under this plan.

8. EARNINGS PER COMMON SHARE

	1998	1997
Earnings before provision for integration costs	$ 1.17	$ 0.97
Provision for integration costs	–	(0.29)
Earnings per common share	$ 1.17	$ 0.68

Earnings per common share is calculated using net income after preferred share dividends and the weighted daily average number of common shares outstanding of 373,242,445 (322,233,226 in 1997).

9. PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

The status of Great-West's pension plans is as follows:

	1998	1997
Assets at market related values	$ 1,414	$ 1,344
Accumulated pension obligations at present value	1,153	1,085
Excess of assets over obligations	$ 261	$ 259

The cumulative difference between the amounts expensed and the funding contributions of $55 million ($30 million in 1997) has been reflected in the balance sheet.

In Canada, actuarial valuation reports were prepared as at December 31, 1997. In the United States, an actuarial valuation report was prepared during 1998. Actuarial estimates for 1998 were made based on these reports.

The current period charge for other post retirement benefits provided by Great-West was $10 million ($2 million in 1997). On acquisition of London Insurance Group, an accrued benefit liability was assumed for employees of London Insurance Group. When the new CICA requirements on Employees' Future Benefits are adopted, accounting policies for other post retirement benefits will be harmonized.

10. RELATED PARTY TRANSACTIONS

In the normal course of business, Great-West provided insurance benefits amounting to $14 million in 1998 ($13 million in 1997) to other companies within the Power Corporation of Canada group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West obtained certain administrative services from Investors Group, a member of the Power Corporation of Canada group of companies. A total expense of $2 million was included in the 1998 financial statements with respect to those services, which was not more than market terms and conditions. Great-West also provided life insurance and disability insurance products under a distribution agreement with Investors Group.

During 1998, London Life entered into an agreement with Investors Group which will result in Investors Group acquiring the MAXXUM mutual fund investment management operations and the trust operations of London Life effective December 31,1998, pending regulatory approval. The transaction reflects market terms and conditions and does not result in a material change to the Company's financial statements.

11. INCOME TAXES

(a) Future income taxes consist of the following temporary differences on:

	1998	1997
Policy liabilities	$ 28	$ 45
Portfolio investments	270	306
Other	(88)	(39)
	$ 210	$ 312

11. INCOME TAXES *(cont'd)*

(b) The Company's effective income tax rate is made up as follows:

	1998	1997
Combined basic Canadian federal and provincial tax rate	**44.1 %**	44.2 %
Increase (decrease) in the income tax rate resulting from:		
Tax exempt dividends	**(1.7)**	(4.7)
Tax exempt portion of capital gains	**(0.4)**	(1.1)
Lower effective tax rates on income not subject to tax in Canada	**(7.6)**	(20.3)
Investment income tax	**3.5**	2.6
Large corporations tax	**0.5**	1.1
Miscellaneous	**0.6**	1.0
Effective income tax rate applicable to current year	**39.0 %**	22.8 %
Decrease in the income tax rate resulting from prior years' tax adjustments	**(0.7)%**	(13.2) %
Effective income tax rate	**38.3 %**	9.6 %

12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, Great-West is an end user of various derivative financial instruments that are not reported on the balance sheet.

(a) The following table summarizes Great-West's derivative portfolio and related credit exposure:

	1998				
	Notional Amount [1]	**Maximum Credit Risk**	**Future Credit Exposure**	**Credit Risk Equivalent**	**Risk Weighted Equivalent**
Interest Rate Contracts					
Futures	$ 25	$ –	$ –	$ –	$ –
Swaps	617	18	2	20	4
Options purchased	1,790	2	8	10	2
	2,432	20	10	30	6
Foreign Exchange Contracts					
Forward contracts	1,064	6	22	28	6
Cross–currency swaps	587	11	35	45	9
	1,651	17	57	73	15
Other Derivative Contracts					
Equity contracts	158	67	14	27	5
Forward rate agreements	146	–	9	9	2
	304	67	23	36	7
	$ 4,387	$ 104	$ 90	$ 139	$ 28
Geographic					
Canada	$ 2,027	$ 91	$ 69	$ 105	$ 21
United States	2,360	13	21	34	7
	$ 4,387	$ 104	$ 90	$ 139	$ 28

	1997				
	Notional Amount (1)	Maximum Credit Risk	Future Credit Exposure	Credit Risk Equivalent	Risk Weighted Equivalent
Interest Rate Contracts					
Futures	$ 25	$ –	$ –	$ –	$ –
Swaps	1,039	24	5	29	6
Options purchased	951	–	5	5	1
	2,015	24	10	34	7
Foreign Exchange Contracts					
Forward contracts	1,003	12	23	35	7
Cross-currency swaps	1,103	34	63	97	19
	2,106	46	86	132	26
Other Derivative Contracts					
Equity contracts	257	4	20	24	3
Forward rate agreements	50	–	–	–	–
	307	4	20	24	3
	$ 4,428	$ 74	$ 116	$ 190	$ 36
Geographic					
Canada	$ 2,913	$ 61	$ 98	$ 159	$ 30
United States	1,515	13	18	31	6
	$ 4,428	$ 74	$ 116	$ 190	$ 36

(1) All contracts are over-the-counter traded and are with counterparties that are highly rated financial institutions.

(b) The following table provides the use, notional amount and estimated fair value of Great-West's derivative portfolio at December 31:

	1998					
	Contracts Held for Asset/Liability Management				Contracts Held for Other Purposes	
	Notional Amount			Total Estimated Fair Value	Notional Amount	Total Estimated Fair Value
	1 Year or Less	1–5 Years	Over 5 Years		2 Years or Less	
Interest Rate Contracts						
Futures	$ 25	$ –	$ –	$ –	$ –	$ –
Swaps	227	349	41	17	–	–
Options purchased	191	1,599	–	1	–	–
	443	1,948	41	18	–	–
Foreign Exchange Contracts						
Forward contracts	136	–	–	–	928	(9)
Cross-currency swaps	78	175	334	(70)	–	–
	214	175	334	(70)	928	(9)
Other Derivative Contracts						
Equity contracts	21	32	105	67	–	–
Forward rate agreements	146	–	–	(12)	–	–
	167	32	105	55	–	–
	$ 824	$ 2,155	$ 480	$ 3	$ 928	$ (9)
Geographic						
Canada	$ 341	$ 309	$ 449	$ 4	$ 928	$ (9)
United States	483	1,846	31	(1)	–	–
	$ 824	$ 2,155	$ 480	$ 3	$ 928	$ (9)

12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS *(cont'd)*

	1997					
	Contracts Held for Asset/Liability Management				**Contracts Held for Other Purposes**	
	Notional Amount			**Total Estimated Fair Value**	**Notional Amount**	**Total Estimated Fair Value**
	1 Year or Less	**1–5 Years**	**Over 5 Years**		**2 Years or Less**	
Interest Rate Contracts						
Futures	$ 25	$ –	$ –	$ –	$ –	$ –
Swaps	323	560	156	17	–	–
Options purchased	–	951	–	1	–	–
	348	1,511	156	18	–	–
Foreign Exchange Contracts						
Forward contracts	260	–	–	4	743	4
Cross-currency swaps	165	344	594	(43)	–	–
	425	344	594	(39)	743	4
Other Derivative Contracts						
Equity contracts	–	170	87	39	–	–
Forward rate agreements	50	–	–	1	–	–
	50	170	87	40	–	–
	$ 823	$ 2,025	$ 837	$ 19	$ 743	$ 4
Geographic						
Canada	$ 668	$ 723	$ 779	$ 6	$ 743	$ 4
United States	155	1,302	58	13	–	–
	$ 823	$ 2,025	$ 837	$ 19	$ 743	$ 4

(c) Realized gains (losses) net of tax derived from derivative contracts held for other purposes, associated with the management of the volatility of the foreign currency translation of the United States operations into Canadian dollars was $(21) million ($(15) million in 1997).

13. CONTINGENT LIABILITIES

The Company's subsidiaries are subject to individual legal actions arising in the ordinary course of business. It is not expected that these legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are three proposed class actions against Great-West (one in each of British Columbia, Ontario and Quebec), and five proposed class actions against London Life (three in Ontario, and one in each of British Columbia and Quebec) related to the availability of policyholder dividends to pay future premiums. The courts have not yet decided whether any of these actions is appropriate for certification as a class action. These actions are in their early stages, and it is difficult to predict their outcome with certainty. However, based on information presently known, it is not expected that these actions will have a material adverse effect on the consolidated financial position of the Company.

14. SEGMENTED INFORMATION

The major reportable segments are the Canadian and United States operations of the Company. In Canada, the Company operates through Great-West and its wholly owned subsidiary London Insurance Group. In the United States, the Company operates primarily through Great-West's wholly owned subsidiary Great-West Life & Annuity Insurance Company. The Canadian and United States segments are also presented by participating and non-participating products.

The major business units for the Canadian operating segment are:

- Group Insurance — life, health and disability insurance products for group clients.
- Individual Insurance & Investment Products — life insurance and disability insurance products for individual clients, accumulation and payout annuity products for both group and individual clients.
- Reinsurance & Speciality General Insurance — life, property and casualty, accident and health, annuity coinsurance and specialty general insurance in specific niche business markets.

The major business units for the United States operating segment are:

- Employee Benefits — life, health, disability insurance and 401(k) products for group clients.
- Financial Services — accumulation and payout annuity products for both group and individual clients, as well as life insurance products for individual clients.

(a) Consolidated Operations

Year ended December 31, 1998

	Canadian Operations					
	Shareholders				Participating Policyholders	
	Group Insurance	Individual Insurance & Investment Products	Reinsurance & Specialty	Total	Individual Insurance & Investment Products	Total Canada
Income:						
Premium income	$ 1,746	$ 676	$ 2,725	$ 5,147	$ 1,261	$ 6,408
Net investment income	231	680	271	1,182	918	2,100
Fee and other income	47	170	20	237	–	237
Total income	2,024	1,526	3,016	6,566	2,179	8,745
Benefits and Expenses:						
Paid or credited to policyholders	1,596	934	2,844	5,374	1,715	7,089
Other	350	328	90	768	313	1,081
Net operating income	78	264	82	424	151	575
Amortization of goodwill				57	–	57
Income taxes				119	96	215
Net income before minority and other interests				248	55	303
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries						
Participating policyholders				–	60	60
Preferred shareholder dividends				28	–	28
Minority shareholders' interest				11	(5)	6
				39	55	94
Net income				$ 209	$ –	$ 209

Summary of Net Income	Total	Participating Policyholders	Total Canada
Preferred shareholder dividends	$ 28	$ –	$ 28
Net income – common shareholders	181	–	181
Net income	$ 209	$ –	$ 209

14. SEGMENTED INFORMATION *(cont'd)*

Year ended December 31, 1998

	United States Operations					
	Shareholders			Participating Policyholders		
	Employee Benefits	Financial Services	Total	Financial Services	Total U.S.	Total Company
Income:						
Premium income	$ 1,198	$ 1,207	$ 2,405	$ 424	$ 2,829	$ 9,237
Net investment income	140	856	996	420	1,416	3,516
Fee and other income	660	106	766	–	766	1,003
Total income	1,998	2,169	4,167	844	5,011	13,756
Benefits and Expenses:						
Paid or credited to policyholders	967	1,826	2,793	798	3,591	10,680
Other	809	157	966	30	996	2,077
Net operating income	222	186	408	16	424	999
Amortization of goodwill			–	–	–	57
Income taxes			136	10	146	361
Net income before minority and other interests			272	6	278	581
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries						
Participating policyholders			–	6	6	66
Preferred shareholder dividends			7	–	7	35
Minority shareholders' interest			1	–	1	7
			8	6	14	108
Net income			$ 264	$ –	$ 264	$ 473
Summary of Net Income						
Preferred shareholder dividends			$ 8	$ –	$ 8	$ 36
Net income – common shareholders			256	–	256	437
Net income			$ 264	$ –	$ 264	$ 473

Year ended December 31, 1997

	Canadian Operations					
	Shareholders				Participating Policyholders	
	Group Insurance	Individual Insurance & Investment Products	Reinsurance & Specialty	Total	Individual Insurance & Investment Products	Total Canada
Income:						
Premium income	$ 1,057	$ 301	$ 920	$ 2,278	$ 290	$ 2,568
Net investment income	138	427	41	606	222	828
Fee and other income	35	83	2	120	2	122
Total income	1,230	811	963	3,004	514	3,518
Benefits and Expenses:						
Paid or credited to policyholders	959	499	929	2,387	416	2,803
Other	203	188	14	405	67	472
Net operating income	68	124	20	212	31	243
Amortization of goodwill				8	–	8
Provision for integration costs				168	82	250
Income taxes				(12)	(28)	(40)
Net income before minority and other interests				48	(23)	25
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries						
Participating policyholders				–	(23)	(23)
Preferred shareholder dividends				8	–	8
Minority shareholders' interest				–	–	–
				8	(23)	(15)
Net income				$ 40	$ –	$ 40
Summary of Net Income						
Preferred shareholder dividends				$ 21	$ –	$ 21
Net income – common shareholders				19	–	19
Net income				$ 40	$ –	$ 40

14. SEGMENTED INFORMATION *(cont'd)*

Year ended December 31, 1997

	United States Operations					
	Shareholders			Participating Policyholders		
	Employee Benefits	Financial Services	Total	Financial Services	Total U.S.	Total Company
Income:						
Premium income	$ 717	$ 686	$ 1,403	$ 616	$ 2,019	$ 4,587
Net investment income	152	836	988	369	1,357	2,185
Fee and other income	495	86	581	–	581	703
Total income	1,364	1,608	2,972	985	3,957	7,475
Benefits and Expenses:						
Paid or credited to policyholders	614	1,353	1,967	953	2,920	5,723
Other	580	136	716	31	747	1,219
Net operating income	170	119	289	1	290	533
Amortization of goodwill			–	–	–	8
Provision for integration costs			–	–	–	250
Income taxes			71	(4)	67	27
Net income before minority and other interests			218	5	223	248
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries						
Participating policyholders			–	5	5	(18)
Preferred shareholder dividends			7	–	7	15
Minority shareholders' interest			1	–	1	1
			8	5	13	(2)
Net income			$ 210	$ –	$ 210	$ 250
Summary of Net Income						
Preferred shareholder dividends			$ 10	$ –	$ 10	$ 31
Net income – common shareholders			200	–	200	219
Net income			$ 210	$ –	$ 210	$ 250

(b) Assets

December 31, 1998

	Canada			United States			
	Participating Policyholders	Shareholders	Total	Participating Policyholders	Shareholders	Total	Total Company
Invested assets	$ 11,608	$ 16,224	$ 27,832	$ 6,441	$ 14,645	$ 21,086	$ 48,918
Goodwill	–	1,659	1,659	–	–	–	1,659
Other assets	554	2,433	2,987	291	870	1,161	4,148
Total assets	$ 12,162	$ 20,316	$ 32,478	$ 6,732	$ 15,515	$ 22,247	$ 54,725
Segregated funds assets			12,959			15,435	28,394
Other assets under administration			374			–	374
Total assets under administration			$ 45,811			$ 37,682	$ 83,493

December 31, 1997

	Canada			United States			
	Participating Policyholders	Shareholders	Total	Participating Policyholders	Shareholders	Total	Total Company
Invested assets	$ 11,407	$ 16,362	$ 27,769	$ 5,673	$ 14,041	$ 19,714	$ 47,483
Goodwill	3	1,718	1,721	–	–	–	1,721
Other assets	575	1,316	1,891	258	691	949	2,840
Total assets	$ 11,985	$ 19,396	$ 31,381	$ 5,931	$ 14,732	$ 20,663	$ 52,044
Segregated funds assets			10,963			11,199	22,162
Other assets under administration			1,231			–	1,231
Total assets under administration			$ 43,575			$ 31,862	$ 75,437

15. YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

AUDITORS' REPORT

To the Shareholders of Great-West Lifeco Inc.

We have audited the consolidated balance sheets of Great-West Lifeco Inc. as at December 31, 1998 and 1997 and the summaries of consolidated operations, the consolidated statements of surplus and the consolidated statements of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Winnipeg, Manitoba
January 28, 1999

FIVE YEAR SUMMARY

(in millions of dollars except per common share amounts)

	1998
AT DECEMBER 31	
Life insurance in force *(face amount)*	$ 477,234
Annuities in force *(funds held)*	43,936
Health insurance in force *(annualized premiums)*	9,309
Total assets under administration	83,493
FOR THE YEAR	
Total premiums including risk premiums, self-funded premium equivalents and segregated fund deposits	
Life insurance	3,425
Annuities	6,471
Health insurance	7,197
Reinsurance	2,646
Property & casualty insurance	44
Total	19,783
Net investment income	3,516
Fee and other income	1,003
Paid or credited to policyholders including dividends and experience refunds	10,680
CONDENSED SUMMARY OF OPERATIONS	
Income	
Premium income	$ 9,237
Net investment income	3,516
Fee and other income	1,003
Total income	13,756
Benefits and Expenses	
Paid or credited to policyholders	10,680
Commissions	538
Operating expenses	1,446
Amortization of goodwill	57
Premium taxes	93
Provision for integration costs	–
Net operating income before income taxes	942
Income taxes – current	216
– future	145
Net income before minority and other interests	581
Minority and other interests of The Great-West Life Assurance Company and its subsidiaries	
Participating policyholders	66
Preferred shareholder dividends	35
Minority shareholders' interest	7
	108
Net income	$ 473
SUMMARY OF NET INCOME	
Preferred shareholder dividends	$ 36
Net income – common shareholders	437
Net income	$ 473
Earnings per common share	$ 1.17
Return on common shareholders' equity	15.4%
Book value per common share	$ 8.12
Dividends to common shareholders – per share	$ 0.44

1997	1996	1995	1994
$ 403,104	$ 251,743	$ 249,142	$ 247,815
39,026	24,505	22,202	20,577
6,594	5,092	5,166	5,407
75,437	40,352	36,721	34,261
1,850	1,806	1,756	1,839
4,638	3,293	3,057	3,297
4,866	4,506	4,771	4,349
904	–	–	–
7	–	–	–
12,265	9,605	9,584	9,485
2,185	1,982	1,999	1,861
703	567	525	463
5,723	4,614	4,885	4,788
$ 4,587	$ 3,532	$ 3,783	$ 3,744
2,185	1,982	1,999	1,861
703	567	525	463
7,475	6,081	6,307	6,068
5,723	4,614	4,885	4,788
286	263	270	255
862	671	637	571
8	–	–	–
71	68	72	84
250	–	–	–
275	465	443	370
105	198	158	105
(78)	(49)	9	24
248	316	276	241
(18)	13	10	12
15	13	18	18
1	1	1	1
(2)	27	29	31
$ 250	$ 289	$ 247	$ 210
$ 31	$ 30	$ 29	$ 23
219	259	218	187
$ 250	$ 289	$ 247	$ 210
$ 0.68	$ 0.83	$ 0.69	$ 0.60
12.5%	17.2%	15.9%	15.3%
$ 7.08	$ 5.07	$ 4.52	$ 4.15
$ 0.37	$ 0.295	$ 0.24	$ 0.20

CORPORATE GOVERNANCE

Great-West Lifeco Inc. was formed in 1986 to hold the securities of The Great-West Life Assurance Company, and currently owns approximately 99.6% of the voting interest in Great-West Life. Great-West has the leading market share of individual life and group life and health insurance in Canada. Great-West operates in Canada both directly and indirectly through its subsidiary London Life Insurance Company, and operates in the United States primarily through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company (GWL&A). Lifeco is controlled by Power Financial Corporation, which controls, directly or indirectly approximately 81.21% of Lifeco's outstanding common shares representing approximately 64.99 % of the voting interest in Lifeco.

Lifeco believes that sound corporate governance is essential to the well being of Lifeco and its shareholders. Lifeco currently has no holdings other than securities of Great-West Life, it carries on no businesses or activities that are unrelated to those holdings, and its Board of Directors is identical to the board of Great-West Life. As a result, the processes and structures that are required to properly direct and manage the business and affairs of Lifeco (i.e. prudent and effective corporate governance practices) have largely been implemented through Great-West. Lifeco offers the following comments with respect to its corporate governance practices.

Board and Board Committees

The Board of Lifeco comprises 22 Directors, and there are currently three Committees of the Board, namely the Executive Committee, the Audit Committee and the Stock Option Plan Administrative Committee. The mandate of the Board is to supervise the management of the business and affairs of Lifeco. The mandate of the Executive Committee is to supervise the management of the business and affairs of Lifeco when the Board is not in session. The mandate of the Audit Committee is to review the financial statements of Lifeco and public disclosure documents containing financial information and to report on such review to the Board. The membership of the Audit Committee of Lifeco is identical to that of the Audit Committee of Great-West Life and both Audit Committees have the same Chairman. The mandate of the Stock Option Plan Administrative Committee is to administer Lifeco's Stock Option Plan.

Board and Board Committee Composition

A majority of the 22 Directors on the Board of Lifeco are "unrelated" to Lifeco. In addition, a significant number of Directors are free from any interests in, or relationships with, either Lifeco or its controlling shareholder.

A majority of the Directors on the Executive Committee are unrelated to Lifeco. The Audit Committee and the Stock Option Plan Administrative Committee are composed entirely of unrelated non-management Directors and the Chairman of the Board is a non-management Director.

Board Operation

The Chairman's responsibility toward the efficient operation of the Board includes the recommendation, after consultation, of appropriate candidates for nomination to the Board, as well as recommendations concerning Directors' compensation and any change that would improve the workings of the Board.

Committees may, at the expense of Lifeco, retain such professional advisors as the Committees deem appropriate for purposes of carrying out their duties and responsibilities.

Management is expected to develop an annual business plan incorporating the business objectives and key results for which management is responsible each year, and to submit the plan to the Board for approval. Management is expected to implement the plan, to achieve the objectives and results, and to report to the Board on its progress.

Shareholder Matters

In addition to the public disclosure documents which Lifeco is required to produce by various regulatory authorities, Lifeco communicates with shareholders through quarterly reports, the annual report and press releases when appropriate. Every shareholder inquiry receives a prompt response from an appropriate officer of Lifeco.

DIRECTORS AND OFFICERS

Board of Directors *(as of December 31, 1998)*

James W. Burns, O.C. [2,3]
Chairman of the Board of the Corporation
Deputy Chairman, Power Corporation of Canada

Orest T. Dackow [3]
President and Chief Executive Officer of the Corporation

Gail S. Asper [1]
Corporate Secretary, CanWest Global Communications Corp.

André Desmarais [3]
President and Co-Chief Executive Officer, Power Corporation of Canada
Deputy Chairman, Power Financial Corporation

Paul Desmarais, P.C., C.C.
Chairman of the Executive Committee, Power Corporation of Canada

Paul Desmarais, Jr. [2,3]
Chairman and Co-Chief Executive Officer, Power Corporation of Canada
Chairman, Power Financial Corporation

Robert G. Graham [3]
Corporate Director

Robert Gratton [2,3]
President and Chief Executive Officer, Power Financial Corporation

Charles H. Hollenberg, M.D., O.C. [3]
President, Ontario Cancer Treatment & Research Foundation

Kevin P. Kavanagh [3]
Corporate Director
Chancellor, Brandon University

J. Blair MacAulay [2,3]
Of Counsel to Fraser Milner

The Right Honourable Donald F. Mazankowski, P.C. [3]
Corporate Director
Business Consultant

William T. McCallum
President and Chief Executive Officer, Great-West Life & Annuity Insurance Company
President and Chief Executive Officer, The Great-West Life Assurance Company – United States Operations

Raymond L. McFeetors [3]
President and Chief Executive Officer, The Great-West Life Assurance Company
President and Chief Executive Officer, The Great-West Life Assurance Company – Canadian Operations
President and Chief Executive Officer, London Life Insurance Company

Randall L. Moffat [1]
Chairman and President, Moffat Communications Limited

Jerry E.A. Nickerson [1,2,3]
Chairman, H.B. Nickerson & Sons Limited

Gordon F. Osbaldeston, P.C., C.C.
Corporate Director

The Honourable P. Michael Pitfield, P.C., Q.C.
Vice-Chairman, Power Corporation of Canada
Member of the Senate of Canada

Michel Plessis–Bélair, F.C.A. [1,3]
Vice-Chairman and Chief Financial Officer, Power Corporation of Canada
Executive Vice-President and Chief Financial Officer, Power Financial Corporation

H. Sanford Riley
President and Chief Executive Officer, Investors Group Inc.

Guy St-Germain, C.M. [3]
President, Placements Laugerma Inc.

Gérard Veilleux, O.C. [1]
President, Power Communications Inc.

1 member of the Audit Committee
2 member of the Stock Option Plan Administrative Committee
3 member of the Executive Committee

Executive Officers

Orest T. Dackow
President and Chief Executive Officer

D. Craig Lennox
Vice-President, Counsel and Secretary, United States

Mitchell T.G. Graye
Vice-President, Finance, United States

Sheila A. Wagar
Vice-President, Counsel and Secretary, Canada

William W. Lovatt
Vice-President, Finance, Canada

GLOSSARY OF INSURANCE AND FINANCIAL TERMS

Annuity: A contract providing income payments at regular (usually monthly) intervals for a specified period. A life annuity provides payments during the lifetime of the annuitant. An annuity certain provides periodic payments over a specified number of years and is not dependent on any person's survival. An annuity consideration is the payment, or series of payments, made to purchase an annuity. An annuity can be purchased as either registered or non-registered funds.

Cash value: The amount available in cash upon voluntary termination of a policy by its owner before it becomes payable by death or maturity.

Derivative financial instruments: Financial contracts that derive their value from the value of an underlying asset or index, such as interest rates, exchange rates, equities or commodities. Derivative transactions are conducted in the over-the-counter market directly between two parties or on regulated exchange markets.

Swaps are contractual agreements between two parties to exchange a rate of return on one investment for the rate of return on another investment such as a floating rate of interest for a fixed rate of interest. For cross currency swaps, floating interest payments of one currency are exchanged for floating interest payments in a different currency. Equity index swaps are contracts to pay or receive cash flows based on the increase or decrease in the underlying index.

Options convey the right, but not the obligation, to either buy or sell a specific amount of a financial instrument at a fixed price either at a fixed future date or at any time within a fixed future period. For options purchased, a premium or fee is paid for the right to exercise the option.

Forwards and *Futures* are contracts to either buy or sell a specified currency or financial instrument at a specified price and date in the future. Forward contracts are customized and transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

Notional Amount is the face or principal value upon which the performance of a derivative contract is based. In general, notional values are not paid or received.

Maximum Credit Risk is the current replacement cost of all outstanding derivative contracts with a positive (receivable by the company) value.

Future Credit Exposure represents the potential for future changes in value based upon a formula prescribed by the Superintendent of Financial Institutions Canada.

Credit Risk Equivalent represents the total of maximum credit risk and future credit exposure, less collateral.

Risk Weighted Balance represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty on a basis prescribed by the Superintendent of Financial Institutions Canada.

Total Estimated Fair Value is the net of contracts in a receivable position (maximum credit risk) and those in a payable position.

Disability insurance (DI): A type of health insurance designed to compensate insured people for a portion of the income they lose because of a disabling injury or illness. Generally, benefits for disability insurance are in the form of monthly payments. Individual DI policies can be cancellable, where the insurer can terminate the policy at any time by providing written notice and refunding any advance premiums; or non-cancellable, where the insurer must renew the policy until the insured reaches a certain age, and cannot increase premiums.

Employee Benefits Division: A business unit of Great-West Life & Annuity Insurance Company, Great-West Life's U.S. subsidiary. Employee Benefits markets life, health and disability insurance and 401(k) products on a group basis to corporations and associations.

Experience refund: The portion of a group insurance premium that is returned to a group policyholder whose claims experience is better than had been expected when the premium was calculated.

Financial Services Division: A business unit of Great-West Life & Annuity Insurance Company, Great-West's U.S. subsidiary. Financial Services markets accumulation and payout annuities for employees in the public/non-profit sector and life insurance products to individuals.

Group Insurance Operations: A business unit of Great-West in Canada, that markets life, health and disability insurance products for group clients.

HMO: Health Maintenance Organization. A prepaid group health plan available in the U.S., that provides a range of services in return for fixed monthly premiums.

Individual Insurance & Investment Products: A business unit of Great-West in Canada, that markets life insurance and disability insurance products for individual clients, and accumulation and payout annuity products for both group and individual clients.

Life income funds (LIFs): Plans which provide flexible options for receiving income from a company pension plan.

Life insurance in force (face amount): The amount stated as payable at the death of the insured or at the maturity of the policy.

Managed care: A method of delivering, supervising and co-ordinating health care in the United States, often through HMOs and other networks of doctors and hospitals. In Canada, managed care often takes the form of co-ordinating treatment and rehabilitation for customers receiving disability benefits.

Minimum Continuing Capital and Surplus Requirement (MCCSR): A formula to determine the adequacy of an insurance company's capital, specified by the Office of the Superintendent of Financial Institutions Canada.

Morbidity rate: The likelihood that a person of a given age will suffer an illness or disability. The premium that a person pays for health insurance is based in part on the morbidity rate for that person's age group.

Mortality rate: The frequency with which death occurs among a defined group of people. The premium that a person pays for life insurance is based in part on the mortality rate for that person's age group.

New annualized premium: A measure of new sales, equal to the full first-year premium on all sales made during the year.

Non-participating life insurance: Life insurance issued on which policyholders do not share in any surplus earnings distributed by the company. No policy dividends are payable. The premium is based on an estimate of future costs and investment earnings very close to what the company feels most likely to occur, with a margin for contingencies and profit.

OSFI: Office of the Superintendent of Financial Institutions Canada. The federal agency responsible for regulating and supervising banks, insurance, trust, loan and investment companies and co-operative credit associations that are licensed or registered by the federal government.

Participating life insurance: Life insurance on which policyholders share in the surplus earnings attributable to the participating business. Dividends can be left on deposit in the policy as part of the cash value or can be used to purchase additional coverage, pay premiums or make loan payments.

Persistency: A measure of how long a policy or block of policies remains in force.

Point-of-Service (POS) plan: A comprehensive managed care plan that directs patient care through primary care physicians who serve as gatekeepers and generally refer patients to contracted providers. The plan uses a nationwide network of hospitals and physicians, enhanced utilization management program, and plan design to control costs and promote quality care.

Policy reserves: Amounts set aside today, which when combined with future premiums and investment income, will provide for future claims and expenses on those claims.

Policyholder dividend: A refund to the policyholder each year of a portion of the premium based on the company's experienced and anticipated costs. Policy dividends are not guaranteed but depend on mortality experience, investment earnings and other

Glossary of insurance and financial terms (cont'd)

factors and may be increased or decreased at the discretion of the company.

Policyholder surplus: The amount of participating policyholder assets remaining after all the liabilities have been deducted; the equivalent of shareholder retained earnings for participating policyholders.

Preferred Provider Organization (PPO) plan: A comprehensive managed care plan in the U.S. that integrates sophisticated cost and quality controls into a fee-for-service plan. Wholesale reimbursement arrangements are negotiated with providers in exchange for redirected patient volume. The plan uses a nationwide network of hospitals and physicians, comprehensive utilization management and an open-ended plan design that offers both saving and flexibility.

Premium income: The income from sales of insurance policies and retirement savings and income products.

RRIF: Registered retirement income funds. Savings plans which can be purchased using RRSP funds and pay out as long as the fund balance supports the payments. RRIF payments are taxable while the remaining funds are tax sheltered.

Reinsurance contracts: These contracts are legal agreements in which an insurer (cedant) transfers certain risks on insurance policies to another insurance company (the reinsurer).

RRSP: Registered Retirement Savings Plan. A plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement. Income taxes on contributions and earnings are deferred until the funds are withdrawn.

Section 401(k) plan: In the United States, a qualified cash or deferred profit sharing or stock bonus plan which allows participants to decide how much of their compensation is deferred. Participant contributions are not taxable until the funds are withdrawn, and sponsor contributions as well as earnings are also tax-deferred to the participant.

Section 403(b) plan, Section 457 plan: In the United States, a type of employee retirement plan established by certain tax-exempt organizations.

Segregated funds: Investment funds managed separately from an insurance company's general funds, on behalf of clients. Unlike mutual funds, the principal invested is guaranteed in the event of the death of the investor.

Term life insurance: Insurance which provides protection for a specific length of time, such as one, five, 10 or 20 years. Most plans allow the policyholder to renew for another term or convert the policy to whole life insurance. The cost of term insurance increases as the policyholder ages. Term insurance does not generally have a cash value.

Whole life insurance: Insurance which protects the policyholder throughout his or her lifetime, providing death benefits and building cash value. The policyholder may borrow funds against the value of the policy. The premium paying period may vary, e.g., payments may end after 20 years or at age 65. The cash value continues to build after premiums are fully paid. Also called traditional or permanent insurance.

Universal life insurance: A whole life insurance product in which the mortality, investment and expense factors used to calculate premium rates and cash values are stated separately in the policy. Expense charges are deducted from the premium, and the balance is credited to the policy's cash value. Each month, the insurer deducts mortality costs from the cash value and credits the remainder of the cash value with interest. The policyholder can specify the premium amount, and change the death benefit after the policy has been issued, subject to restrictions established by the company.

Registered Office

100 Osborne Street North
Winnipeg, Manitoba
R3C 3A5

Stock Exchange Listings

Symbol: GWO

The Common Shares, First Preferred Shares Series A, B and C, and Class A Preferred Shares, Series 1 are listed on the Toronto, Montreal and Winnipeg stock exchanges.

Transfer Agent and Registrar

Montreal Trust Company of Canada

411 – 7th Avenue,
Calgary, Alberta
T2P 1E7

1800 McGill College Avenue,
Montreal, Quebec
H3A 3K9

151 Front Street W., 8th Floor,
Toronto, Ontario
M5J 2N1

510 Burrard Street,
Vancouver, British Columbia
V7C 3B9

200 Portage Avenue, Mezzanine Level,
Winnipeg, Manitoba
R3C 3X2

Dividends

Common Shares and First Preferred Shares Series A, B and C – Dividend record dates are between the 14th and 17th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Class A Preferred Shares, Series 1 – Dividend record dates are between the 14th and 17th of January, April, July and October. Dividends are paid on the last day of January, April, July and October.

Annual Meeting

April 22, 1999 at a location in Winnipeg as specified in the notice of meeting, at 11:45 a.m. or as soon thereafter as the Annual Meeting of The Great-West Life Assurance Company shall have terminated. (The Great-West Life Annual Meeting begins at 11:00 a.m.)

Investor Information

For financial information about Great-West Lifeco Inc., please contact:

Canadian Operations:
Chief Financial Officer (204) 946–7341

United States Operations:
Chief Financial Officer (303) 689-6770

For copies of the Annual or Quarterly Reports, contact the Secretary's Department at (204) 946-8366 or visit our web site: **www.gwl.ca**

Normal Course Issuer Bid

The Corporation has renewed its normal course issuer bid, through the Toronto and Montreal stock exchanges, from December 1, 1998 to November 30, 1999. Under the Bid, the Corporation intends to purchase for cancellation, up to but not more than 1,000,000 common shares of the Corporation, representing .2680031% of the outstanding common shares at November 12, 1998.

This is the 11th normal course issuer bid by the Corporation. Shareholders may obtain a copy of the Bid, at no charge, by contacting the Corporate Secretary's Department.

Common Share Investment Data*

	Market Price per Common Share ($)			Dividends Paid ($)	Dividend Payout Ratio	Dividend** Yield
	High	Low	Close			
1998	**27.13**	**16.75**	**26.00**	**0.44**	**37.6%**	**2.0%**
1997	19.50	9.98	19.25	0.37	38.1%	2.5%
1996	11.44	7.19	10.63	0.295	35.8%	3.2%
1995	7.19	5.41	7.19	0.24	34.8%	3.8%
1994	6.38	4.82	5.54	0.20	33.7%	3.6%

* *In September 1998, the Corporation's common shares were subdivided on a 2 for 1 basis. 1998 and previous year data are presented on a subdivided basis.*
** *Dividends as a percent of average high and low market price.*

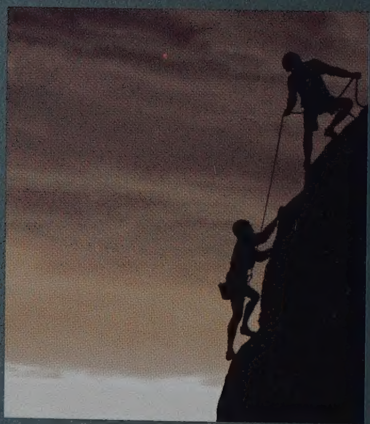
Design: Design Emporium Ltd.

Photography:
page 4 – Tony Nardella
page 5, 13 – Jim Woronuik
page 7 – John Tamblyn

Prepress: Embassy Graphics Ltd.

Printing: Kromar Printing Limited

This Annual Report is printed on stock that contains 50% recycled fiber, including 20% post-consumer waste.



Great-West Lifeco Inc.

Member of the Power Financial Corporation group of companies

E987 (98 Lifeco)

Printed in Cana